

Ep #73: The Office Smackdown



Full Episode Transcript

With Your Hosts

Dr. David Phelps and Evan Harris

[Dentist Freedom Blueprint](http://DentistFreedomBlueprint.com) with Dr. David Phelps and Evan Harris

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You are listening to the *Dentist Freedom Blueprint* podcast, with David Phelps and Evan Harris. Navigating you through the uncharted waters of a turbulent economy with straight-forward advice to transform your practice into a self-sufficient cash machine, compound your net worth assets, and multiply, multiply, multiply your passive cash flow streams.

David: Good day, everyone. This is Dr. David Phelps back to you with another episode of the *Dentist Freedom Blueprint* podcast. I've got my great friend Evan Harris with us today. Evan, how are you doing?

Evan: I am well but I'm actually rather disturbed. I come fresh from an office that has taken a long-term client practice and in my opinion, really taken it down the tubes. I'd be happy to share a little more about it since it is so fresh.

David: Here's why I like having you on the calls, Evan. A lot of our listeners, our subscribers, say, "Hey, get Evan back on because Evan gives us that fresh perspective." You do, because you are out there every day of the week almost. You are in your client dentists' practices. You have those relationships. You're seeing with your own eyes through the vision of an outsider, the way a patient might see the practice.

You're getting the stories, not just from the doctor, but you're getting the stories from the staff and you're probably in reception area rooms, your eyes can see what patients see. So I love your perspective and you come from the background also of being very much of an entrepreneur because you and your wife do a lot of things in the real estate side and lending side. So you've got that perspective. We need that so much in our industry today because as we both would admit, things are changing very, very fast.

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To stay on top, to keep your freedom, and have the ability to still build a lifestyle and have some amount of control, you've got to do things differently today. You've got these two I think great case studies about what you should do but we're going to talk first about what not to do. So, Evan, why don't you set the stage for us?

Evan: Yeah, I'd be happy to. I'd call this the title "The Practice Smackdown." Here's what I mean by that is I met with the office manager who actually is leaving, awesome. She's been there for 20 plus years. She is an asset just because she's been there a long time does not mean that she's not valuable. She's super valuable. She's been working for the original doctor for 19 years and then just recently, a year ago, the practice was sold.

So the doc that had been there before built this practice, I would say from scratch. Like literally hung a shingle, built it up, had long-time relationships, had patients driving from god knows where all the way to this practice doing amazing crown and bridge. Really just solid bread and butter dentistry and having reputations built on that kind of word of mouth.

Now, the doc wasn't really I would say technologically savvy and didn't do a whole lot of Yelp and Google reviews and things like that, but frankly, he didn't need it. As much as I'm a fan of that, I can't argue with the numbers. David, the doc was pulling in cash. I could run the numbers real quick and the doctor was pretty transparent too. Doctor had a pretty good lifestyle and didn't bust butt that hard. Worked very diligent for four days but was pretty flexible.

A new doctor buys in and the practice has five ops, he was really using three heavily and four off and on, but the

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fifth was almost more of a storage room. Anybody out there with that fifth op? Believe me, it's worth something, doctors. It really is. But this doc just had a good life using four.

This new doctor comes in and just decides that they're going to crush it. Now, I'm all for crush it, by no means am I against that. But their view of crush it was more patients through the door. Great, I'm down with that too. But David, here's the deal. They wanted it to be a light switch. They wanted it to be boom. New patients through the door and who cares what kind of patients are coming through the door. So they meet these three little letters—I don't know if you've ever heard of them before—H-M-O.

David: I've heard of that.

Evan: You've heard of that before.

David: I have.

Evan: So their understanding with HMO is they sign up, they're going to get money instantly for having patients just on their list. Patients are going to be coming pouring through the door, granted, normal treatment is going to be at a fee schedule that is rivaling Walmart. It's cleanings at a loss, it's fillings at a loss, the whole bit. But if they upsell all these patients, they can squeeze out some profit. They just hope that the patients don't even show up.

Now, I know I'm being a little bit abrasive. But these are their words to me. So if you have an issue with it, listeners, you can go after them, not at me. I'm just repeating what I heard. So that's their plan. Sure enough, it works. The patients start pouring in. But here's the problem, the patients that were coming in were a little more wise and savvy than they thought.

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These patients came in for their free cleaning, that's what they were paying for. They weren't upgrading to the deep root planing. Sure, the occasional patient would, but that was after deep grinding in the sales meeting. It was almost like a timeshare, David, I kid you not. They're closing room was worse than a car sales place.

The patients, what they started doing, is they found this other service called Yelp and Google and that's where the smackdown started. They got beat down, beat down over and over by these patients going they came in for their free cleaning, they tried to get up sale on the quad cleaning, the deep root planning. They came in for a filling, and they're being upgraded to an all porcelain or E-max.

Because they didn't have a lot of Yelp and Google reviews as it was, the reviews that were coming in were negative. Like way negative. Like these people took time. They were articulate. They weren't stupid, they had an HMO, which I think is kind of stupid, but they were not stupid in their ability to communicate their thoughts. They ripped them a new one.

So we think, "Well no big deal. They can just pull out of HMO. No problem." Problem is this: the practice that they bought they were patients that were aware of Yelp, were aware of Google, apparently even though they didn't post, they were aware of it.

They began asking the office manager, "Hey, what's up? We referred your practice to another person and they said they went on Yelp you have all negative reviews, like you're scammers, your rip off artists. I've never experienced that but maybe that was the old doctor, maybe the new doctor is that way. We want our charts.

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We want to go somewhere else. We don't want to be affiliated with that. We're embarrassed that we referred our friends here and our friends find that" and the word started to spread.

To make it worse, they're in a small, little town. The town happens to be really wealthy. I won't name the names to protect the innocent but let me just tell you the word spread fast. Less and less cash patients started coming and guess what more and more of came? HMO. More HMO came because they're on the list and less cash patients and less PPOs came.

Now, issue: They still have debt. They've got mega debt on buying this practice. Plus, the dentist even has school debt on top of that. I don't even know what the personal debt that she had—it's a lady dentist. So all the people that think it's just some guy that's wanting to gouge people, no, no, no. This can be gender neutral here. Just so happens to be a lady dentist and now the office manager has left the practice and the assistant is looking to leave.

They're concerned that they're not going to get paid. They're also concerned about the dentistry being done. The cleanings went from one hour down to I think 40 minutes—same cleaning, supposedly—same cleaning, 40 minutes. They're not feeling comfortable with the kind of dentistry that they're being delivered.

They're even referring their family to other dentists because they don't want their family to come for that kind of treatment. The address may have stayed the same but, David, let me tell you, the experience is anything but the same.

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David: Evan, there's definitely a problem with the culture. I think it goes without saying you and I would both agree that you cannot mix two different cultures. That is a culture of the HMO, which by the way is really a default mode of a failure to market. Whenever a practice, or any business defaults to insurance-driven mode of getting new patients in the door, you're defaulting to that being your mode of marketing.

But when you try to have a high volume practice and incorporate that with what you'd really like to have, which would be an all-cash practice, the two cultures don't mix. There had to be a huge amount of conflict, not with just the doctor but the staff because now you've got two staff people leaving. The conflict there, you cannot wear one hat to the cash paying patient who has been there long term and then have the waiting room stacked up with all these volume patients coming in the door getting their 40-minute cleanings. What kind of disarray did you see in that regard?

Evan: Oh my goodness. They attempted to do different columns different ways. So they had their HMO column where they would double and triple book. Then they would have the PPO and cash patients that they would actually have appointments. They thought that they could deliver two totally different services to two totally different patients.

I appreciate the thought but let's imagine a restaurant where we're going to delivery those people who walk in with coupons one service and someone else that's cash paying totally different. It doesn't work. Looking in the waiting room, even the waiting room looked different. Those that showered that day and those that didn't. I mean, I don't even know how to get more deep.

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A person that could just go on smell alone could probably tell who was who, and that's on such a bad rep for HMO. It's not that way. There's tons of great people that have HMOs but it was evident that this set, whatever HMO they got on, and I don't know what it was, it was obvious that they have opened up the practice to a whole different basis of patients. I'm not saying they're good or bad but the practice looked more diverse than I'd ever seen.

The team trying to decipher who was to get the better service, it wasn't like one assistant was dedicated to the bad patients. They were to do it all. So that assistant had to decide who they were going to hustle, who they weren't, who they were going to charge the regular fees and who they weren't. Then it got worse. They started getting bad reviews so what the dentist decided was that each team member would create a fictitious Google account and a fictitious Yelp account.

David: Oh my.

Evan: And start creating fake reviews. That they got crowns done there. That their life was changed by a smile design that they never got. That was when the assistant finally just was like that's not congruent with her values. She's a great lady too, by the way, in my opinion. A gem of a team member. To lose her is just devastating. But she couldn't stay in a place that she felt wasn't truthful, wasn't honest, like high integrity.

The other doctor was completely high integrity. I loved working with the previous doctor. My thought is find where you want to be and get clear. If a doctor wants to be HMO, cool. Go HMO. Good luck. I don't know how that's going to work out for you but that's your business. But be clear. If someone wants to go PPO, cool.

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Or if you want to be into something, part two of this conversation is going to really be being clear on what you're passionate about. I don't mean dentistry. There's plenty of dentists that are passionate about occlusion or they're passionate about esthetics. Or they have different camps that they're part of, they're part of the Dawson group or the Pankey group or the Spear group. Good for you.

Really for the patient, they don't care. Just telling you from the street, they don't care. I know it makes a big difference in how you deliver treatment. That's awesome. I love higher education. But patients want to know that you like to go boating. They really like to know that you collect certain things. They want to know that you're a human outside of just being a doctor.

The second show that we do, I'm going to share an example kind of opportunity of this case study right here of an office that just got passionate about both dentistry and also their outdoor activities and how they were able to really connect health outside to health inside and then health inside to oral health. That has transcended the insurance programs. I'll even share how this doctor even bought a practice that had insurance programs that they didn't even want to keep and slowly but surely, they got to let them go. Where this other office flipped it the other way.

This other office took an office that was purely fee for service and I think a couple PPOs that were really a higher fee schedule and just really dumped into HMO. And really to this day, I don't know if they're going to stay in business. My understanding is that their loan payments are far greater than the profit that that practice is even producing.

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David: So, Evan, that's what I want to get back to you on. This is a young dentist. This dentist that took over this practice, that bought this practice, had this dentist been in practice somewhere else as an associate, I'm just guessing, or do you know what the pathway to ownership was?

Evan: Yes. The doctor briefly was an associate at a clinic. No surprise. They knew the HMO model. What she wasn't exposed to and she shared this was that she wasn't exposed to really the P&L. She didn't know that cleaning that she did was less valuable than — or she actually was doing cleanings but not in her new practice but we'll say crown — that all crowns are not the same. The crown to the HMO patient is very, very different than the crown to the PPO or the cash patient.

I think in her mind, she just thought more crowns were better and she didn't realize the ramifications of what would happen. They even had some cash patients decide to get HMO because they're like, "My god, they can show up to the same office and to get their crowns and cleanings and all these things for so much less?" Who wouldn't? They're like, "Fantastic." They had that option at work, they signed up. Now that cash patient is paying, what, less than half of what they would have put had they just stayed the way they were.

David: Because as you said, the patient cannot discern or differentiate between what they're paying and the service they're getting versus the other people. There's no distinction. You cannot blend the two together and create any uniqueness at all in the practice.

Evan: So true.

David: It sounds too, Evan, like the debt and we both know that the debt for young professionals, graduates, dentists

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today is huge. Granted, it is huge. Then to top that off, to buy a practice, particularly a practice that sounds like was producing some good cash flow, some good income from the previous doctor. Not saying that this young doctor overpaid for the practice but the debt load is huge today and it sounds like unfortunately that debt drove this young doctor to come out of the gate and as you said, want to crush it.

I think there's still some entitlement theory for young people who have gone to school for so many years and you come out of school and it's like, "Okay, I'm finally entitled to have some kind of life and maybe have a decent car, a place to live. Maybe I've got a spouse now who's been tired of the whole school thing, so I need to get into this practice and I need to 'crush it.'" So what am I going to do?

Unfortunately, too many look at volume being the answer and you've already laid the case study out. You cannot make up the loss in profit margin in volume. Then it runs off your higher margin or your more valuable patients at the same time. So it sounds like unfortunately this practice is inward imploding. I wish this doc could be in a place where she could have some wise mentorship and help her see straight that there's never a quick road to riches.

There's never a quick road to having everything you want in life. It's got to be done purposefully and it all starts with a foundation and that culture that you decide with your vision and you build a team around that. If it's not there and you've got confusion amongst your staff and the people that support you, it's going to be a very shaky foundation and certainly the staff feels it. The patients feel it.

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Then you have the social media reviews today which are out there, which you cannot escape, you can't play games around that. It's going to cause a drastically negative effect on anybody's practice. I hate to see a young doctor get into that kind of trouble so early in their career.

Evan: Yeah, you're so right. The debt actually could have completely been serviced if they'd just left the practice as it is. The sale of the practice to the loan value actually worked out quite well but I think where she got misaligned was that the practice she came from was always HMO. It paid its bills because it was congruent with its debt load. So it was always HMO. If she had bought an HMO practice and kept it HMO, that probably would have worked too. But she shifted and that's what the challenge was.

She paid for a practice that cash flowed based upon fee for service and a couple PPOs. When she added HMO, it wasn't just an addition, there was a subtraction. That's where I think that we don't really see what patients perceive and the negative of be all things to all people. I believe when we're passionate about something that other people are passionate about and it's natural within us, others will naturally gravitate toward us.

At the same token, we will repel others and I believe that's okay. I believe it is okay to be very clear on who we are and very clear on who we are not. I wish this doctor the very best of luck. It's just going to be a challenge now to unravel. My encouragement to any of you out there that really have a clear passion of who you are, really I would encourage stay focused in that. Let others know about it.

Connect with people that are in alignment with that passion. Then how that translates to an experience in

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your practice that is like no other, that they would want to tell other people about you and that you could be yourself. That if you're really into something, that would be a natural outpouring of who you are inside. Not having to try to masquerade as something that you're not because that would be a long day every day if we're trying to be something that we're not.

And frankly, a lot of times what we're into, we're into outside the practice and all of those people I bet have teeth. Whatever hobbies we're in, they probably bring their teeth with them. That's where I'll share a little bit about the next episode, how a practice has been built around something that was fun and oh by the way, it pays all their lifestyle and then some.

David: So that's a little teaser for the next episode. Hey, Evan, words of wisdom. True words of wisdom today. You know what, buddy? It's great to have you back. I love the discourse. I love the back and forth with you and I know our listeners do too.

So hey everybody, if you enjoyed this episode, please give us a review. We appreciate five stars. Give us some feedback if there are subjects or topics you'd like us to cover. Evan and I have a wealth of experience, not all positive. We've got our negative stories too which we're happy to bring out and we've got connections everywhere in practice and finance and wealth building and real estate. We can bring it to you, whatever you'd like to have. Subscribe. If you're not a subscriber, jump on, subscribe.

We'd love to catch you every week. I'm here if Evan is not but I'm going to get Evan on here more often. He's just a busy guy. He's got a family that takes a lot of his time and

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we appreciate Evan every time you're on here with us. So we'll conclude today but you've got a great episode coming up next week and I want to hear how that positive side turns out. So until next week, we'll see you then.

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