Ep #226: Dan Kennedy - Making More from Less - Marketing to the Affluent

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Dr. David Phelps

Dentist Freedom Blueprint with Dr. David Phelps

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David Phelps: Good day everyone. This is Dr. David Phelps of the Dentist Freedom Blueprint podcast. Today a very special interview with one of my key mentors for many years of my life, and that's Mr. Dan Kennedy. Dan and I did a special interview surrounding his new book, or actually it's the third edition of a book he's written in the past, "Marketing to the Affluent".

Why is that an important topic? Well, today we have really the destruction of the middle class, and a bifurcation of that middle class into some that are going to a lower level of socioeconomic class if you will, and we have many that have become more affluent.

So why is that important to us as business owners? As professional practice owners? Well, determining who our key market avatar is; who's our key customer client that we are trying to reach? Or do we even know? Why is that important? How to recession-proof your business. How you actually move up the ladder of finance and escape a lot of the disruptive forces that are suppressing your profit, price, and growth right now. Such as consolidation of the industry, healthcare, dental practices, the commoditiization effect that price margins of the PPO insurance management are creating. How can you position yourself? It's an important question to dig into. So with that, let me bring on my guest, my mentor for many years, Mr. Dan Kennedy.

Hello everyone, this is David Phelps of the Freedom Founders. Welcome to the call today. Today I have the great pleasure and opportunity to speak with one of my longtime mentors, Mr. Dan Kennedy. Dan, how are you sir?

Dan Kennedy: I'm great, David. How are you?

David Phelps: Perfect, Dan. Dan, we're focusing today on marketing to the affluent. In particular, your latest third edition of the book "No B.S. Marketing to the Affluent". That book is available for pre-order right now on Amazon and Barnes & Noble, being shipped by the middle of the month.

Let me give people a bit more of your background, Dan. Because many people know you, but many people do not. Dan Kennedy is a multi-millionaire, serial entrepreneur with past and present interest in diverse businesses. He's a strategic advisor, marketing consultant, and coach with a cadre of private clients; ranging from exceptionally ambitious entrepreneurs to the CEOs of companies as large as one a half billion dollars. He's one of the highest paid direct response copywriters in the world, a popular professional speaker and seminar leader, and a prolific author. I believe this is somewhere in the neighborhood of book number 24. I also might add that I've been privileged and honored to be a multi-year private client with Dan, and also in his Titanium Mastermind Group.

And Dan, I also let our listeners know that I found you first through one of your books, about 15 years ago. A clue for our listeners today is to surround yourself with people who have already gone down the path. Dan is very futuristic. He understands business, marketing, copywriting like nobody else. And today, Dan, the focus being on marketing to the affluent. Let's talk about why that's important.

You and I both know, we talk a lot in our meetings about the fact that the middle class is being decimated. What we know today as far as the economy, it's really built on a lot of debt. Most of the middle class, that a lot of companies certainly in my tribe, professional practice owners, still are very dependent upon the middle class; but that class is usually about one paycheck away from, or one mini-life crisis away from, being broke.

Who's the affluent? And why is this important, Dan?

Dan Kennedy: Well, so you're absolutely right. I mean, look. If you feel like giving him credit, I would, Trump has sort of stopped the genocide. But still, middle class consumer in America is a very fragile creature. He is, as you point out, somewhere between one and four paychecks away from being in dire straits. Mostly he's close to zero net worth, when you calculate debt against what would be fire sale prices if you had to sell all your assets, he's near zero. So he's a very fragile guy.

More importantly perhaps, or of new importance, and certainly to people in your profession with regard to their practices, not regard to their real estate investing, but with regard to their practices, is these consumers can be Amazon. Whether by Amazon or by an Amazon-like entity. So the affluent person is not going to play dentist or orthodontist at home, do it out of a box with an app, they're not gonna be brought into a retail one day assembly line kind of place. But the middle class consumer will, can be, and is. So that's a relatively new additional reason not to be dependent on them.

The biggest reason not to be dependent on them, and the reason why the affluent consumer is so much better, has to do with what happens when there are downturns and recessions. As you know, nothing stays up forever. There are predictable economic cycles, and there are relatively unpredictable economic burps. We'll have another one, certainly within my lifetime and yours. And likely within the decade. Perhaps sooner.

So the middle class consumer spends roughly 70% or more of their income on basic necessities. About which they have no choice or flexibility in purchasing. The mortgage must be paid, the utility bill must be paid, car payment must be paid. I call it "Toothpaste and Toilet Paper Purchasing".

David Phelps: Right.

Dan Kennedy: They gotta do it. So they have about 30%, or less, left that has flexibility. Meaning they can choose a higher fee or higher-priced provider of something, because they want to. They can save that money up, or go into debt, and service the dent and remodel the kitchen, etc. However, in a downturn, that becomes 80%, 90% being spent on basic necessities. All the flexibility and discretionary spending disappears in a heartbeat.

The mass affluent to affluent consumer spends about 40% of their income on "Toothpaste and Toilet Paper." They have 60% left that is discretionary and flexible. They have so much left, in fact, that they're able to save and invest. So they own a rental property, they have money in their 401K, they have money in stocks and in bonds, etc. In addition to their spending. In a downturn, if they are affected, let's say that the 40% goes to 60%. They still have 40% left with flexibility in it. They still have a lot of discretionary spending power.

So John, who's just about at the point of finally getting a bunch of procrastinated-over dental work done, and has come in maybe, and gone home to think it over, turns on the TV and the recession has arrived. He thinks 16 times about whether to go forward with that treatment or not. He thinks, "Maybe I'll put it off again." He thinks, "Maybe I should look around and find a cheaper source. Heck, maybe I should just get them two in the back pulled and be done with it."

David Phelps: Right.

Dan Kennedy: The affluent person doesn't have those thoughts. If he was on the verge of taking care of that, he's still gonna take care of it. Because he has the money left.

So the only real security is in a base of affluent patients, clients, and customers and their referrals who are birds of a feather. The insecurity is all in the middle. At the bottom, almost nothing changes no matter what. I mean if you're broke, you're broke.

Dollar Stores kind of do fine no matter what. But it's the middle that moves up and down, that shrinks, after 2008 it was the middle that got killed, and it's the middle businesses that still find themselves in trouble.

So the value, the sustainability, the security of the practice, is in from mass affluent up to affluent patients. I would imagine you counsel similarly to people who are, by and whole, real estate investors.

David Phelps: Yes.

Dan Kennedy: About tenets.

David Phelps: Exactly.

Dan Kennedy: Whether residential or commercial, right? You don't want to be at the bottom, because periodically you have a house with no toilet in it and no door on the hinges. Right?

David Phelps: Yep.

Dan Kennedy: Right. You really don't want to be in the middle. You want to be above the middle. Mass affluent to affluent. Because again, if the plant lays off a thousand people in town, who's got problems?

David Phelps: Yeah, they've got no place to go, do they? They've got no margin for making any change.

Dan Kennedy: No. So their problem is your problem overnight.

David Phelps: Exactly. So Dan, we know the big problem for people that are in my industry, the professions, is that we all went to school to learn how to be a technician, to be a specialist in trading time for dollars. And that's fine as far as earning income, but as we're just bringing out on the call today, relying on that middle market is where the vulnerability is. So the problem, you and I see it all the time, is that any business, any industry, any profession that is dependent upon that middle market being vulnerable is, sure they're all are saying right now, the real estate investors saying, "Well, that sounds great, Dan and David. But how do I go find these affluent customers? Right now I'm dependent upon the insurance companies that drive most of my marketing. In fact, what marketing I do is just hit and miss. I'm on the internet, I'm doing Facebook, maybe, maybe I drop a ValPak out there. But most of the marketing, Dan, is not by intention. It's not by direction. We as industry, or professions, have these self-imposed limitations that we believe, well we have to just march like everybody else."

What your book does, "No B.S. Marketing to the Affluent", it spells out what the demographics and psychographics, and of course the how's to reach this market. But you want to give a few tips, or a few caveats on what to do, or mistakes that are oftenly made when people want to shift from one client base to another? Because that's the hard part, that's the sticking place for most people listening right now.

Dan Kennedy: Yeah. So the thing is, first of all there has to be a degree of ambition and desire to change this part of one's game. To go from random and ordinary to very intentional, organized, systematic, and aimed at exceptionally valuable patient flow. Instead of average value patient flow. Because somebody's gotta devote a little bit of time, and a little bit of attention to it. So one of the things the book does is build that motivation.

Then the first real place that people make mistakes, is with their own inner game. So the outer game of this, who are these patients? Where are they? Why do they respond or not respond? Why do they behave as they do? And what are the media, and the tools, and the messages, and all of that to reach them? Is all sort of castrated by a sabotaging inner game.

So a lot of people are just in their own way with their own belief system about money. All the way back to what they heard at the top of the stairs as a kid, to what they perceive to be industry norms of the moment, and their own biases about what they buy, why they buy, and how they buy, getting in the way. So they're looking through a really small hole, through a very narrow prism.

Much of what I write about is about the why. Why the affluent customer, in this case patient, why they respond and act differently than ordinary or financially average consumers. Because they think differently. You have to start thinking differently as well.

So that's the first place people get themselves in trouble. They're their own roadblock. Then secondly, they have a practice, a process, a staff, a staff attitude, they have a collection of things that are at odds with the way affluent patients get to yes. And were built and designed in the first place, either as copycats of everything they see around them, and/or engineered to try and appeal to everybody, by which you basically appeal to nobody. Or to appeal to that big, fat middle. There are changes that have to be made, and they are well worth making. Because if the affluent patient is worth, let's say, three times what an average patient is. Of course all their referrals will be in roughly the same state. That means one of two things. It means we can increase your income by four with no appreciable increase in infrastructure, staff, chairside hours, etc. Or we can get to your income goal with 1/4th as much of all that. And that is a big liberator for you to be able to do other things with your life.

So most professionals in practice are in part held hostage by their need for quantity, for volume. Marketing to the affluent is all about getting more from fewer, and less. Meaning fewer patients, and therefore less frustration, less advertising, less hiring and firing in order to maintain and grow staff. Now a big impediment to growth, since we're in a functionally zero unemployment economy. This is really a path somewhat parallel to the other path you teach and preach, but this is a path to freedom. So it's about a lot more than just kind of rearranging the economics, and it deserves some change investment that may be necessary.

David Phelps: Well it's an entire game changer, Dan, when somebody adopts the mindset. And as you said, will go to the effort, be intentional about who their target market is, and physically move locations, do what needs to be done. Because just staying in the same rut, trying to make it up on quantity, particularly as you said, as we may look to a reset, or recession, of the economy is really just playing with fire.

Dan Kennedy: It's important to be very aware of illusions and delusions. So just because the bills are all getting paid, and there's patients in the chairs, and there's money in the bank, does not mean that the business is healthy. Disease evolves, mostly before it suddenly accelerates.

David Phelps: Right.

Dan Kennedy: Weaknesses are created over time before they're stressed. So you're seeing all this flooding on TV right now, and the dams are breaking, and water is flooding towns. Well, weaknesses in those dams have been worsening over time.

David Phelps: Yes.

Dan Kennedy: Finally, they've been stressed and now... What's Buffet's line? "You really don't see who's naked until the tide goes out."

David Phelps: Right.

Dan Kennedy: Well in this case, you really don't see how stressed the dams are until the tide comes in.

When your practice, or business, and therefore to some extent your financial sustainability, has inherent weaknesses in it. It can look okay today, but you have to have enough foresight, and enough vision, and enough intelligence to say just because it looks okay today doesn't mean it is okay today. I gotta make sure I'm on pretty solid ground with this thing if I'm gonna keep it. Or I'm locking in real sustainable value if I intend to exit it and sell it.

So one of the things that marketing to the affluent is all about, is not just increasing income day to day, hour to hour, week to week, patient by patient. It is about strengthening the business.

David Phelps: Yes.

Dan Kennedy: And that's a central theme of this book.

David Phelps: One of the things that you have taught me over the years is, particularly as we're looking at this segment, the affluent, is that their attitudes about what they buy are completely different than the rest of the market. The rest of the market, middle market on down, is looking for price. Just gotta get it to me as cheap as possible. But the attitude, or the buying preference, of the affluent is looking for the service. They want to be to the head of the line, they want to bypass all of bureacracy, they want concierge service. That's where price elasticity, as you coined the term, comes into play. The languaging that one uses to attract, or speak to, the affluent is based on different types of triggers. Totally similar to the rest of the market. Do you want to speak a little bit to any of those?

Dan Kennedy: Yeah. Yeah. So we talk about it in the book. First of all, what I call the E-factors, which are generic. The emotional factors that drive all human behavior. Then there are the affluent-specific E-factors. They're able to be indulged because of ability to spend. I mean, the two things that you want to manage are the ability to spend, and the willingness to spend of the people you bring through your door. So everybody kind of has the same desires, it's just that poor people can't afford to even consider them, and middle income people generally can't indulge them. So a middle income consumer, two people on a household, both working, blue collar, or low white collar, or one of each; let's say a school teacher and a dock worker, a warehouse worker. They've got two cars in the driveway, etc. But it's all mortgaged. It's all debt on a foundation, and debt on wheels. So they're pretty limited in their ability to indulge, desire for exclusivity, ego, and other E-factors.

Secondly, they don't have the same appreciation for expertise, differential, that the affluent person does. And so when you move up the income pyramid with your business, with your practice, and yourself, you discover that the higher your income, the more you're being paid for who you are in the eyes of your clientele, not for what you do.

Middle income consumers have those impulses, but they can't indulge them. If you or I need something, a healthcare service for example. So I am right now dealing with what was a really slow evolving, that suddenly became an accelerating, cataract. And I need cataract surgery. Well, I approach that very differently than would a middle income consumer. I start searching for who is the best, and then how can I get to them? How can I be sure I get VIP treatment from them? Price is not even going to be on the top 10 list. As I told the person I selected in the letter I sent in advance of calling to make an appointment, I've got great insurance, but whatever it doesn't cover, price is not an object here.

David Phelps: Right.

Dan Kennedy: Only the result is. That's not where the middle income consumer starts. It might be where he'd like to start, but as a practical matter he can't. So what you term price elasticity, in practices you can use the term fee elasticity instead, exists with this consumer who can make a more sophisticated and complicated choice. Therefore, our ability to persuade him to make a more complicated and sophisticated choice, has legs. It has value. It can have an impact.

The same persuasion, the same story told, the same expertise presented to somebody without the ability to spend, is wasted. They might have the willingness, but they can't. In many cases, they don't have the willingness or the ability. So this is a synergistic mix of who you bring in the door, and how you present yourself to them. There's authority, there's celebrity, there's credibility, there's targeted visibility, there's this list of attributes to your story, to your presentation, that matter more the higher up the income and net worth ladder you go in the people you are telling the story to.

David Phelps: Dan, the failure of most attempts at marketing by, again, mainstream business industry professions; which really is de facto advertising, calling out, hoping to make a sale to anybody who will darken the door, is a big mistake. And one of the tenets of your marketing, which is really a theme throughout all of the books you've written, including "Marketing to the Affluent", is direct response. We won't go into that in great detail. But one of the keys that you've taught all of us that have followed you over the years, is that the greatest asset of any business is to have a list, and a segmented list. To build that list the right way with intention, and for the target that we're talking about today, the affluent; building that list has to again, be done by very focused marketing that we talked about the languaging, the emotional triggers a few minutes ago. Again, finding them where they are. And I think that's again, you would say one of the biggest mistakes that generalized advertisers, or marketers, make. There's no focus there at all.

Let's speak just for a minute about what you and I know works very well for this market segment. That's direct mail, direct response.

Dan Kennedy: Well, so first of all, direct response is about getting a direct and immediate response from the right person. In 8 out of 10 cases that's gonna be somebody who is not ready to run in for a consultation and an exam. The more affluent the prospect is, the more that is true. So all advertising and marketing that is single reason to respond and high threshold, call and come in and let's do some x-rays and let's show you what your mouth could look like and let's get going. The more affluent the clientele you're after, the less that works.

So you need to be a little more sophisticated about multiple reasons to respond, information first offers, and then to your point, by those strategies and tactics, bringing qualified prospective patients into a list, and into a multi-step type of communication. Some people will move fairly quickly, but some people will move fairly slowly.

We just did a bunch of research with a client of mine who has a very high-end implant dentistry practice, and 20% of last year's new patients were on the list, were in his media platform, were getting communication with him, for 36 to 48 months. Their value makes that a non-issue. But they would be lost entirely with most traditional dental advertising.

Then to direct mail, first of all, the good news is direct mail has no spam filters. Also direct mail, as opposed to for example online social media, circumvents search and it allows you to have marketing assets. Not marketing as a verb. So if you are dependent on, let's take Facebook, you or somebody has a job because you need new content every day. You need to be actively engaged in it every day. The rules are going to change every week. I mean, it's a job.

If you could develop a direct mail campaign that works, you may be able to use that campaign in rotation for years without ever revisiting it. We have a dental campaign, the one dentist has been using it twice a year for 11 years, and the response is Steady Eddie. It's the same now as it was 11 years ago. I defy you to do it online. And also direct mail lends itself to making more complicated persuasive arguments, because it can buy more time from a reader than anything can buy from a viewer, or a visitor.

So for all those reasons, it has an important part in marketing to the affluent.

David Phelps: And there's no Facebook or Google police deciding what you can or can't say. Right?

Dan Kennedy: No, no, no. The only time you get a regulatory body involved is right at the point that you're going to jail for outright fraud. Otherwise the envelope stays sealed, and the postal guy delivers it. End of story.

David Phelps: Exactly. All right. We're down to the last 30 seconds. Dan, real quickly, hybrid models. Trying to serve different segments, diverse segments, trying to have a fee for service affluent market, but also serve the insurance-driven. Can you do it? Or would you advise against that?

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Dan Kennedy: It's difficult, it's not impossible. Sometimes in transition it's a viable approach. In other words, don't quit your day job overnight.

David Phelps: Yep.

Dan Kennedy: But ultimately, the affluent patient smells a rat about a place purporting to be for him or her, but really isn't. So it's a very difficult model.

David Phelps: Yep, I agree. Dan Kennedy, thank you so much. The book is "No B.S. Marketing to the Affluent." It's available for pre-order; Amazon, Barnes & Noble, right now. It'll be shipped out mid-month.

Dan, truly a pleasure and honor. Thank you so much for your guidance, your mentorship, your advice and your vision. For not just me, but for all the people that have been on Planet Dan for so many years.

Dan Kennedy: Thank you, David. Appreciate it.

David Phelps: All right, bye bye.

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