

Ep #177: Business Is Math



Full Episode Transcript

With Your Host

Dr. Una

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Hi, Docs. Welcome to *The EntreMD Podcast*, where it's all about helping amazing physicians just like you embrace entrepreneurship so you can have the freedom to live life and practice medicine on your terms. I'm your host, Dr. Una.

Well hello, hello, welcome back to another episode of *The EntreMD Podcast*. Thank you so, so, so much for being a listener. I was looking at our statistics, at the time of this recording we had just crossed 160,000 downloads. And guess what? I have never listened to the podcast 160,000 times.

The only reason why we're there is because of you, because you listen. And I appreciate you because you listen. Really, from the depths of my heart thank you for listening. Thank you for sharing. Thank you for PMing me, DMing me, sending me emails about your wins. I really appreciate it.

And I'm honored that you will take the time to listen. I'm honored that you come back and back again. I'm honored that you share it. And I'm honored that you do the things we talk about and get big wins from it. So thank you so, so, so, so much. I'm beyond thrilled about that.

We're going to have a really fun episode because we're going to be talking about business is math. And the thing about math, I mean, I don't know about you guys, I really love math. I could have easily been an engineer, I love math and physics and chemistry. I didn't like biology, very weird that I became a physician. But I love math.

And the thing about math is it's very concrete, there's not a lot of art to it, you know what I mean? It just is, right? One plus one is two. You can't say one plus two is one, that's just not the way it works, it's math.

And the reason why I wanted to have this conversation is because I hear a lot of people say I'm going to build my practice, I'm going to build it my own way. And people deserve low cost and people deserve a lot of time spent with them, and that's what I'm going to do.

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And I'm like, "Okay, before we get that far, let's look into the business models, because business is math." I'm going to make this so simple, like oversimplify it just because I want you to get the concept.

Now, there are things you don't get to choose. For instance, you don't get to choose to go to McDonald's and then say you want a whopper, right? Because if you want a whopper, you have to go to Burger King. That's the way it works. You don't get to choose. You choose the restaurant, and then the restaurant chooses for you what you get to eat. That's kind of how it works.

I can't go to law school and insist they give me a medical degree. No, I made the choice of law school, and so if I'm going to come out with any degree it's going to be a law degree. You can't choose the outcome, you just choose that vehicle that you choose to go through.

In business, you choose your model. And then the business model is what determines, can I do a lot of people or fewer people? Can I do a high price or a low price? Those things you don't really get to choose, you choose the model. The beautiful thing is that the model works. Different ones work, they can give you the same outcome, but you have to know the rules.

So if I can make it the most simple version it's that there are two kinds of businesses. There are not two, there's a whole spectrum. But for the sake of making this point so that we get the concept and we make decisions from this standpoint I'm just going to divide it into two.

So you have one business model which is low price, high volume. Low price plus high volume equals profitable business. Low price, high volume. You have another model, the second one, that's the opposite. It's high price and low volume. But guess what it will give you. It's still going to be a profitable business.

So these are the two equations, low price and high volume or high price and low volume. Low price and low volume will not work. It just will not.

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High price and high volume can work, but usually that's not the way it works. But like I said, we're only going to use these two.

So the equation has to work. Business is math, it's just math. You don't get to choose I want to do low volume and low price. Because the equation doesn't work. This math problem is not working. If you took it to your teacher, they would put a big X by it with a red pen, like, no, it doesn't work.

So let me give you two examples of these, and they both work. Some people say high ticket is the only way to build a profitable business. Totally not true. So if you think about something like Netflix, so subscription that's what, 7.99, \$8 a month? \$8 a month, so it's low price. Now to make it profitable, it needs to be high volume.

And, of course, Netflix is a super success story and all of that, but they have 74 million subscribers in the US alone. So yes, their product is \$8 a month, but very, very, very, very, very, very, very profitable because they have high volume. So worldwide they're about 209 million, but in the US 74 million. So low price doesn't matter because they have high volume.

Now think about something else, think about your Rolls Royce. Again, I'm using these two very different examples. And they are very successful businesses, but I'm just trying to make a point here. Rolls Royce would make 3 to 4,000 cars a year, that's it. They will sell that many cars, that's it, 3 to 4,000 a year.

But if you look at their 2020 models, it runs from 330,000 to 535,000 a pop. So, I mean, they can take as long as they want to build a car because they only need to sell so many. So that is high price low volume. Okay, low volume.

So think about Netflix, 74 million people who say yes every month. And Rolls Royce, they have 3 to 4,000 people worldwide that say yes every year. Think about the difference in volume. But there's also a difference in price and that's why the math works.

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So let me bring this all the way home. If you work in private practice and you're like, "My patients deserve hour long visits." Well, I would agree with you. Okay, great. They deserve our long visits. But if the insurance company is going to pay you 100 bucks a visit, your hour long visit comes to eight visits a day, which is \$800 a day, which is \$16,000 a month.

And so if you look at between you and your front desk person, and maybe your MA or your biller, or whatever, I mean, that's not enough for your salaries. And we're not talking about mortgage or rent, we're not talking about medical supplies, office supplies, utilities, or any of that.

So does the model work? If you are fee for service, maybe not. Now, of course, I'm oversimplifying this and I'm talking about here a primary care doc who's insurance based, who's maybe 50% Medicaid or whatever. So don't say, "Oh, but..." I know. But I'm trying to get this across so we can think about these things properly.

So does that model work with low volume? It doesn't, the numbers don't add up. Now, if you say, "Well, but that's what I want to do." Of course, you have options, right? But you have to know that just doing that is not going to work so you can start looking into your options.

So your options can be, hey, can I add another service that doesn't require a lot of my time, that will have a bigger margin so it will make up for this margin that I'm not making seeing patients? That's an option.

You say can I make it more efficient? Can I make it more efficient so I don't need an hour? Are there questions I ask every single time that I can make into a questionnaire so it doesn't take that long? Can I have them worked up a different way? Can I have them fill out certain forms that will make it so much faster? Can I have them do labs and add the results before they even come in? Can I make this more efficient so maybe instead of one an hour I can see two an hour? I don't know.

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You can say do I get rid of insurance altogether? Do I get rid of insurance altogether so that I can do a higher price and a lower volume? Knowing that that equation works, right? That works.

Or you can just say, "Wait a minute, I don't even want to any of this for the money. I don't care if I make any money, I'm okay. So I'll just make sure my staff are paid and that my utilities are paid and I'm good. If that's what you want to do, that's your call and that's fine. But what I'm trying to say is just saying I want to see very few people and I want to charge little, it just doesn't work. Business is math. That's what it is.

You might say, okay, let's say you're not even medical, right? And you're like, "Oh my goodness, this whole high ticket thing, I don't want to do it. I want the services that I offer to be affordable to everybody." Guess what, that model can work. But you have to understand the rules. You have picked low price, which means you have to also pick high volume.

So if somebody has a higher ticket program, for instance, they can afford to have fewer people. But you can't if your goal is profitability. You're not just doing this for fun if it's profitability. And if you want to do that, then you're like, "Okay, what do I need to do to attract the number of people that I want to get the revenue targets that I want?"

It's all math. It's all math. So I'm going to bring you back all the way to where we started from. You don't get to choose low ticket or high ticket, low price or high price, low volume or high volume, just in a vacuum. It doesn't work, it's an equation. Low price high volume equals profitable business. High price low volume equals profitable business.

So you have to choose the equation. You can't just choose a piece, you have to choose the whole thing. So then the question is, well, what kind of business am I running? What model have I picked? And then run the numbers. It's a numbers thing. It's not about passion, it's not about the change I want to bring into the world.

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Now don't misunderstand me, of course this is important. And we always lead with that, we lead with this is the impact I want to make. These are the kinds of people I want to help. These are the results I want to get them. But if you're going to be in a position where you can continue to do that, then you absolutely have to make sure your business model works. Because no margin, no mission.

Many really good, well-meaning businesses have shut down because they didn't have an understanding of this. So let me stop and talk to my private practice people. Maybe you're fee for service, maybe you're primary care, maybe the reimbursements are less.

These are some hard questions you're going to need to ask. Can I pack a punch into the time that I can spend with them? Can I make it more efficient? Can I make my office run more smoothly? Because the model can work, but the math has to be right. And then you have to figure out how to make the most out of the time that you can spend with a patient.

Now I know overall that oh my goodness, the system is weird and it doesn't have to be this short. And there are things being done to change this on a national level and all of that. But as that is happening, please understand that you can't really violate the math. The equation has to work. Business is math.

Which works better, equation number one or equation number two?
Neither. These are all billion dollar companies, every last one of them. And some are high ticket and some are low ticket, you just have to know the rules.

So you're not going to do low ticket and say I'm not going to put myself out there. I mean regardless you're going to have to put yourself out there. But you can't say because it's low ticket then people are just going to come. No, they're not. You're going to have to go after them, you're going to have to put yourself out there.

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So I hope you got this. And the question I want you to ask for yourself is, well, what business model am I using? And I want you to play with the numbers, plug it in. Like if I do this, then this happens. If my price is this, I have this many clients or patients, this is what my number will be at the end of the year.

Play with that and decide, do I like that number? I don't like that number. Okay, if you don't like that number, what do you want to change? Do you want to change the price? Or do you want to change the volume? You have control. It is math, this piece, this part of the business, we can take the emotion out of it, it is plain math.

So look at your model, crunch some numbers, play around with it, then have a come to Jesus meeting with yourself. I was recently at a workshop and it was a workshop for authors. And I love what they did. They said you can write, you can pick the number of days that you're going to write. And this is how many words typically a book would have. And then you can project how long it will take you to write the book.

And so we all started working on it and someone was like, "Yeah, I think I'll write 100 words." I'm making this up, I don't remember what exactly the person said. But I'll write 100 words every day and all that stuff. And then they realized it will take me 10 months to write this book.

So if I write 100 words, so that's the volume. And every day, that's the frequency, then this is when my book will be ready for us to even start editing it. And they're like I don't like 10 months. Great, you don't have control over 10 months, that's the outcome piece of the equation.

You just need to go back and say if I don't like that can I increase the frequency? Or can I increase the number of words? But you can't just magically change the 10 months. That does not happen.

Same way, you can't magically change the profitability in your business. You have to go back and say, "Okay, what do I want to change? Do I want

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to up the price or do I want to up the volume?" You just can't change it, wishfully. You can't change it.

All right, so this is simplistic but if you walk with this it will guide your decision making. It will take you out of fantasy thinking into real thinking. Business is math, it is not emotional. There are business models, and both of them, I gave you two simple ones will lead to profitability, but you have to know which one you're using. And you have to be honest with yourself. It is a math equation.

So I want to save the world, and I want to charge a little, and I want to spend a lot of time with my people. That is not a winning equation. It never has been because the math doesn't add up.

All right, so thank you so much for listening. What would really make me happy is that you go look at your model, you go crunch the numbers, and then you make decisions, executive decisions. You're the CEO of your life, you're the CEO of your business, make executive decisions like, "Yeah, I'm not doing that anymore." Or you reach out, you're like, "Hey, our prices are changing for X, Y, Z time." Or you're like, "Okay, we can work this efficiency in so we can increase our volume."

And I want you to email me and say, "Hey, Dr. Una, thank you so much for that episode. You literally changed my business even though I didn't realize that I was working against myself, I was working against the equation. You can't work against the equation, so this is the decision I've made and I can't wait to see what it does for my business." I would love that, let me know.

And take this episode, share it with somebody else. Tell them, "Listen, very simple, but you need to get this concept." So thank you so, so, so much for listening. And I will see you, my friends, on the next episode of *The EntreMD Podcast*.

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one thing as a physician entrepreneur, and that is to thrive. Just head out to entremd.com/ondemand and I'd love to have you join us. See you on the inside.