

**Mike Murphy 00:00:00** *They're on that river in Egypt called "Denial". They don't see it, right. Or they attribute everything to a one-off. So they may or may not be looking at data, which they should be, but then they're looking at data and then something really bad happens. "That's just a one-off". But that's not going to be there next year. So it's going to be okay. But that disaster is going to be replaced with another disaster. And they don't do the same thing on the windfall. Right. Well, there's this one windfall carried our results. And they don't look at that as a kind of a one off. So it's really having a really aggressive, insightful, tough marketing system."*

**Austin Hare 00:00:37** The goal of this show is to help healthcare organizations scale by leveraging real estate strategies and interviewing high-level healthcare executives in order to pull out lessons learned along the way. Hello, everybody. Welcome back to Helping Healthcare Scale.

**Austin Hare 00:00:58** And I'm your host, Austin Hare. Our guest today is Mike Murphy. He's the Founder and Managing Partner of Sunstone Management Advisors. He's an industry leader with over 40 years experience in the healthcare and insurance space. He's been a CEO, a CMO, and a CRO. Something noteworthy. Mike propelled a new insurance division from a cold start to \$435 million in revenues and \$22 million in EBITDA in four years, and it's now exceeding \$1 billion. He grew revenue by 18% and EBITDA by 40% within the first year of merging three healthcare entities. So there's a lot that we can dive into and unpack. Mike, thanks for coming on the show.

**Mike Murphy 00:01:32** It's great to be here. Many thanks for having me.

**Austin Hare 00:01:35** Well, cool. Yeah, let's dive into it. Maybe share that story, how you went from a cold start to \$435 million. Give us some background and walk us through what happened and what you did.

**Mike Murphy 00:01:45** Sure. It was fairly recent. Certainly within the last nine, ten years.

**Mike Murphy 00:01:49** It starts really, I think going to 30,000ft for a second. It starts with having a good product that you manufacture and execute well. And in a marketplace that's interested in what you're doing. It sounds trite and oversimplified, but there's an old adage that says nothing kills a bad product faster good marketing. So in this particular case, it was an auto insurance company that saw the Affordable Care Act had recently been passed and thought, gee, there's going to be a great opportunity for supplemental ancillary alternative products. The owner at the time was privately held was going to purchase the company that I was president and chief operating officer over and said, nah, it's just cheaper. We'll just go and hire. Mike. They did pay the company up to get me, but they got me anyways. Yeah. So I started with kind of the ground floor with a business plan, making sure I understood the total

addressable market, made sure that I understood what the value proposition was going to be, speed to market was going to be important.

**Mike Murphy 00:02:46** Even though we weren't cash starved like a typical startup. The reality is that we were going to be draining SG&A. Day one. And we ran ourselves as if we were cash starved. So we tried to do as best we can at matching the expenses to revenue and on the side of speed to market and execution. We did a lot of outsourcing to try and get things moving faster, and then built the team as we went along and grew the organization and overhead. As our revenue stream grew, we did benefit from some targeted M&A. So that certainly helped advance things along. But a fair amount of our growth was, in fact organic, old fashioned, build a product, walk it through the regulatory process, find distribution for it, build all the stuff you needed to support the product, take it out, sell it. And a lot of the stuff was insurance so also make sure that your claims are less than your premium. It certainly was quite a journey and it was a ton of work and a lot of regulatory things to work your way through if you're an insurance company.

**Mike Murphy 00:03:49** But I'm pretty proud of what we were able to accomplish and like you identified today that business is doing extraordinarily well and it's twice the size from even when I had it. So I'm proud of it.

**Austin Hare 00:04:01** Okay. So yeah, I think there's a lot to dissect there. I think the idea of building things in terms of scaling, you got to fix it before you can grow it, nail it, then scale it. As they said, I think two-pronged. Question number one. How did you guys go about doing that? Number two, what kind of mistakes have you seen other people make about going about it the wrong way?

**Mike Murphy 00:04:21** Sure. So in this particular case, since it was a cold start, there was less to fix. Right. So we did do some acquisitions. And so those things had to be cleaned up and fixed to some degree. But a lot of what we were doing was just starting with. And again, it's old fashioned stuff of a value proposition, which is all well and good.

**Mike Murphy 00:04:42** But really what you want is proprietary distinction, which is your value prop laid across the marketplace. How were you bigger, faster? Better? Cheaper? Is the market going to support a new entry? How do you differentiate yourself and not just in terms of your marketing, your imagery, your branding, but the actual execution and actually how the product works? And that was really our advantage here because a lot of these insurance products, accident and cancer and critical-illness, life, these have been around for a thousand years. Right. So they weren't particularly new or innovative. And we took it as an opportunity to do something really different. So I think that fresh look, that fresh start. And then the other key thing that was good for this particular product was that it was built around needing mastery of the distribution channel. It's not like you had a store and you could put your

product out there and was going to sell a big chunk of being successful, at least in this part of the insurance business, with mastery of the distribution channel.

**Mike Murphy 00:05:36** So we had some in-house distribution that we acquired. They were our greenhouse. We didn't turn them into a company store. They sold competitive products. So it was a great way for us to constantly test and refine not only how the product worked, but how the sales folks, in this case, the agents. What do you respond to?

**Austin Hare 00:05:53** What do you mean when you say greenhouse test environment?

**Mike Murphy 00:05:56** The analogy I used to use was let's pretend you're in the business of selling computers, right? So today you've got Apple Stores and then you have other computer stores. In this case, let's pretend that we were Apple, but we were also selling Microsoft products in there, right? Our distribution was selling other things. The idea was that we knew our product had to compete, so why not have it compete in a quote unquote "greenhouse test environment" where we had our own in-house agents and they would sell the product they were most comfortable with, even if it wasn't ours. It took a little getting used to for some of our owners to wrap their brain around it, but it would enable us to create a selling environment where, you know, you, the consumer or the agent didn't have to choose between going into an Apple Store or Microsoft Store.

**Mike Murphy 00:06:44** They can go to one place. And then that created that market for us. And then we said, we have to compete anyways. We've got to just we've got to be able to master that. And then of course that feedback loop is these were friendly. So our agents some were employees, some were 1099. They were constantly feeding back to us on all things important. So it really enabled us to fine-tune our game. And so when we took it out beyond our own in-house distribution, we really felt like we had something special. So greenhouse was really just an opportunity, a petri dish, a live test environment, that we used to refine what we were doing.

**Austin Hare 00:07:18** And how long were you like in this stint? For how many years was this journey for you?

**Mike Murphy 00:07:23** About four years. Once, I got up to the point where it was up and running and cranking and we had done a large acquisition and we had digested all of that, and the acquisitions we did were all wildly successful.

**Mike Murphy 00:07:36** And the thing was flying along. There was a relocation involved. And, you know, I thought, I'm a builder and a fixer, not a maintenance person. I don't know, I think my journey's done here. And I had a great team I could pass to. I wanted to get on to something else.

**Austin Hare 00:07:48** Yeah. And then what was next for you after that?

**Mike Murphy 00:07:50** So that's when I became a CEO. There was a couple of years where I hung out my own shingle and did some consulting work while I was trying to figure out what I wanted to do. And then I became CEO of a small to mid-sized payor provider service company. It was actually three different companies, separate, related by marriage and different stages of trouble or success. And I got named CEO. I put the three companies together, navigated through Covid, rationalized the overhead, fine-tuned the strategy, redid the cap table, renegotiated some debt. I had to get through Covid, which wasn't easy.

**Mike Murphy 00:08:28** And then that first year, EBITDA grew by 40%, the revenue by 20%. Yeah. And so pretty excited by that as well.

**Austin Hare 00:08:37** So yeah, this is like maybe explain the correlation between healthcare and insurance. Like this insurance is for healthcare providers. What's the overlap there in your history between insurance and healthcare. Is it specifically the insurance for the healthcare companies?

**Mike Murphy 00:08:54** No, it's health insurance. So if you want to think of it that way. And then there are non-health products. So generally when you think about insurance there is life, accident, health so life everybody knows about accident are correlated to accidents, sudden onset of emergent thing. And then health is everything else. So everything from your employee benefits to cancer policies to critical illness to dental insurance, that sort of thing. So that's been a big chunk of my career. And then of course, there's a whole ecosystem around that. With providers, many of them participate in networks, contract with health insurance companies to as a way to get steerage into their various facilities.

**Mike Murphy 00:09:39** So I've either been on the side of the table negotiating with payers or been on the side of the table negotiating with the providers or providing services, whether it's the payers, providers, up and down the ecosystem. But yeah, when you're talking about health insurance, so what it's not is we're not it's not casualty insurance. So it's not like malpractice or property and casualty, that sort of thing. It literally is health related. Insurance coverage when we think about health insurance.

**Austin Hare 00:10:07** Okay, so real quick to double click on it. You said you've been on both time sides of the table. A lot of our listeners are going to be the health care operators. What advice would you have for them in negotiating with insurance?

**Austin Hare 00:10:23** Who to partner with like how to partner all those. Anything.

**Mike Murphy 00:10:27** It's interesting because I had gone over to the provider service side. So one of the businesses that I referenced previously that had we had the success with

the EBITDA and the revenue and the payer provider service company was a revenue cycle management software.

**Mike Murphy 00:10:44** And so we sold into large provider groups. And then one of our applications was a reporting database that allowed the provider to really get insights into really how their business was running and where their profitability was. and I had been on the provider side before. About ten years earlier, I had worked for a large distributed patient care business and the prosthetics and orthotics business, and I was in charge of negotiating payer contracts, which was a flip for me because I used to be on the other side of that. I was always building networks and things. And so ten years removed and I sat down and I saw this new company, and I saw this technology. And I said, doesn't everybody have this now? And they said, no, it's really shocking. So the first thing that I found, which is the thing I say to all providers, is to have really a strong command of understanding your financials and the details. And because the reality is, when I went in to negotiate with a provider, I had unbelievable data.

**Mike Murphy 00:11:47** I knew everything about that provider. I knew the soft spots, the hard spots. I knew what I needed to do. I knew what the other costs were in town. I had a budget I had to hit. And then on the provider side, a lot of them have all this data and things that come out of their health records, and that's the thing. And they know what the numbers are, but I don't necessarily know what they mean. So the first thing you know, I would say is make sure you have a strong command of your financials. And it's not just because a lot of times, especially on the on the medical side, everybody is, oh, this is this fee schedule is X percent of Medicare or even dental fee schedules. They do everything off of some percent. But that's not your profitability. Your profitability is the business that gets directed the mix of that business. What is your actual P&L and investment by the mix of the business? Because you maybe have one stream that you do really well on it, very profitable another or not.

**Mike Murphy 00:12:43** And then, of course, what's your collections? How much do you have to go out and go after the consumer for balance? Does this carrier give you just a little bit amount of bad debt that you got to write off, or is this one constantly chasing bad debt? Does this carrier put a lot of requirements on you and retroactively deny a lot of your claims. So it's a very complex thing. And I frankly have some sympathy for the provider community because they don't have that level of detail and they need to get it. It takes a little bit of of desire to crack that open. But know this, that the person on the other side of the table, they've got unbelievable data. They know exactly where they need to go. They have strategies around how they need to get to even small. Like I negotiate with a small hospital. I'd have a binder that told me everything about that hospital and what I needed to get to.

**Mike Murphy 00:13:40** So the first thing I would say to anybody negotiating with a payer is, first of all, have a strong command of your business, understand where your profitability is and it's not. And again, it's not revenue, it's profitability. And then go into the I go into with it

a sense of what you can live with and not live with. And sometimes you can't be afraid to walk away, which you're seeing more and more providers do that.

**Austin Hare 00:14:04** Yeah, I think it's great advice and it's nice hearing it coming from the other side, being like sitting on both sides of the table. So let's talk about navigating change. What advice would you have for sea level to deal with business transformation in the healthcare sector?

**Mike Murphy 00:14:18** Yeah, I personally think it's the single most vexing thing in my 40 years that I, I think about all the times that I was joyous and all the times I wanted to leap off a building, and all the times I wanted to leap off a building revolved around change.

**Mike Murphy 00:14:33** And that's the inability of organizations to assess really where it is and to recognize the need for change. At one point actually, I was in the middle of an executive meeting. I was part of the senior executive team, and there was all this stress and people were arguing this, that and the other thing, and I just said, it feels like we're we all agree on what the goal is. Yes. Then we disagree on how much change we need to get there. So I said a scale of 1 to 10 and one means we can fall asleep in our chair. A 10 means we have to blow it up and start over again. How much change do we need to get to our goal? It was an interesting little exercise that I did on the spur because it really isolated maybe through heuristics, but it was the twos and eights. The two said, oh, we're almost there. All we gotta do is tweak it. And if we try to do more change, it's going to blow everything up.

**Mike Murphy 00:15:21** And the eights of which I was, I was probably a 13, but at the time. But I said no. And so you go through trying to reconcile the twos and the eights.

**Austin Hare 00:15:30** And what was the particular issue in this case? Can you dive into that?

**Mike Murphy 00:15:33** Yeah, sure. It was growth rate. Right. So it was the company was a stock company. And we agreed that we wanted to be \$1 billion business in five years. And it happened to be that because there was so much debt in the company, that a 15% compounded revenue growth rate would not only get us to a billion in revenue, it would also get us to a billion in valuation, stock enterprise value. But we had never done more than 3 or 4. So we were going to go from three 3 to 4 to. To 15 for five years, because that's what we need to do to get to the number. And then the folks that had been there a while ago, you don't understand.

**Mike Murphy 00:16:10** We have 10 to 12 in our pocket. This is fine. We don't need to. And if you try to put change in the organization, it will break the organization because the people, the folks because we were very distributed, it was more like a confederation of individual businesses than it was like a single place. And they said, you don't understand. If you do that, you'll the fabric of the company will destroy. And it was really about how much what is the

concept, how aggressive do we need to be and the things that we put in place to try and drive this growth. And so it was the twos and the eights. And the irony was that within two months we have 10 to 12% in our pocket was we're think we're minus three and we're not sure why. And then the twos didn't become eights because and so yeah, they just kind of wanted to get into the Delorean and go back to 1956. And the Yeah. Company didn't do well after that.

**Mike Murphy 00:17:03** It's come back. It's great. It is a great company doing magical things. But it was just that conflict, that structural conflict around how much change. And again, that simple heuristic I did scale of 1 to 10. And then sometimes you lay out and you said, okay, what's two level change look like? What's eight level change look like. And you can see the tasks and you say, okay, if we have the patience of time, we could start with two. And then if we get away from our escalating business plan, we can turn up to six to 7 to 8 and that sort of thing. But trying to get that recognition of the need for change and then the not begrudgingly, but then the execution and the cultural side and the communication side all lined up really hard to do. And then the last thing I would say is that this was a little bit of a microcosm of it, which is a mistake that others make, is they're they're on that river in Egypt called "Denial"

**Mike Murphy 00:17:57** They don't see it. Right. Or they attribute everything to a one-off. So they may or may not be looking at data, which they should be, but then they're looking at data and then something really bad happens. "That's just a one-off. But that's not going to be there next year. So it's going to be okay". But that disaster is going to be replaced with another disaster. And they don't do the same thing on the windfall. Right. Well there's this one windfall carried our results. And they don't look at that as a kind of a one-off. So it's really having a really aggressive, insightful, tough marketing system. Don't just give yourself A's. Really look hard at what you're doing. Make sure you understand what your data is. And then understand the cultural challenges of change and trying to manage accordingly. It's very hard to do.

**Austin Hare 00:18:42** Yeah, I can think of anecdotally just in the short-term rental business. When I got started in 2016, I had a duplex, I lived upstairs, I had long term tenants downstairs, I was traveling for wakeboarding, and whenever I'd go out of town, I put it up on Airbnb and it booked out all the time with my clothes in the closet and underwear in the dresser and food in the fridge.

**Austin Hare 00:19:07** And nobody complained. Fast forward to like, today. And you have one hair and a pillow, and a guest will cancel their entire reservation.

**Mike Murphy 00:19:15** Absolutely.



**Austin Hare 00:19:15** We had to undergo. We're buying a lot of used furniture and, like, doing everything on the cheap and doing like, the minimal that we needed. And our locations were good. So we survived for a while. But having to realize, like you, you really have to invest a lot of money on the front end into design, into amenities, into furniture and appliances and things that you're going to use and there and then you're gonna have to reinvest because they're going to break. So just going undergoing like that state of change, like the industry, like the guest expectations have just exponentially improved. And the competition has to. That's part of it. And so having to adapt and even now with the team trying to get everybody on the same, we all know kind of the direction we need to go. But it's still hard to get people on the same page.

**Austin Hare 00:19:56** Yeah. Like we know we got to get more heads and beds and do these outdoor amenities, but it's like, which ones do we do? And ultimately, I have veto power, our final say. But we don't want to always exercise that level of authoritarianism.

**Mike Murphy 00:20:10** Well, ideally you hope you don't have to do that if you got the right team and they're self-driven. And every now and then you gotta pull rank. And that's that's part of the mantle of leadership. But what you describe right there in terms of that journey is a great little microcosm, because at face value, if you were a two and staring back into 1956, the good old days. So the revenue's down and you didn't have the metrics to look at price mix, volume or the KPIs to drill down on why bookings are down or satisfaction was down. And then actually develop the hypothesis and say, what do we need to do to evolve? Or that's the product lifecycle. It's constantly refreshing, testing, changing. And that's the key to a successful business.

**Mike Murphy 00:20:56** And a lot of organizations don't do that. They go, it was great in 2000, 2016. What's going on now? I don't know. It's going to get better. And hope is not a plan. And so that whole thing that you just described there is. That's it. That's when I sit down with organizations and go through their dashboard and what they're doing. And it's the business can teach you so much. Are you open to it? Are you aware of it? Are you on the look for it? Are you vigilant? And you were. And congratulations. That's how you stay successful.

**Austin Hare 00:21:24** No. Yeah, I appreciate that. Yeah. Maybe let's put a bow on this. Like, what are some, like what tangible takeaways or action items would you advise people on how to best deal with this.

**Mike Murphy 00:21:35** Sure. So I start with a really it's too simple and it's stupid, but it works every time. It's "check your premise". And the first thing is a I have a great company with great people.

**Mike Murphy 00:21:49** We're executing. We're doing well in terms of manufacturing the product to spec, we want B, I have a marketplace that values what I do. It's there's



opportunity for growth. I have a competitive advantage. It's all great. See, I have a growing, thriving company, and I'm really happy. If A plus B doesn't equal C. You need to check your premise. And nine times out of ten, companies are in various stages, especially early stages. They're not at C yet. And so you have to go back in and check am I really. Do I really have a total addressable market here? Because invariably what happens is those companies that are not at C somebody there's a they're brainstorming right there inside "sales doesn't know what they're doing" or "operations screwed this up". It's that fin-er pointing kind of stuff. But it's not fundamentals. And so again, it's oversimplified the actual Harvard Business Review structure around how you would go and get at all of that much more complex. But is that real simple thing A plus B equals C? Yes.

**Mike Murphy 00:22:51** Great. Then you need to start diving in and figuring out. And some of it's on the inside, which is, you know, execution and manufacturing. But frankly a lot of it's on the outside, which is a mismatch or not an understanding of the total addressable market or having a business that you're madly in love with in terms of its features, but don't truly have a proprietary distinction on why it's bigger, faster, better, cheaper than the competition. So I just start real simple and then drill down from there. And I encourage you can get at that too. You can go through your data. You can figure out how many winning and losing customers departing and in addition to just revenue and expenses and profit. But that's I guess it's oversimplified, but that's every company I've ever gone in. And that's I start off with this A plus B equals C, and then that tells me where I need to go.

**Austin Hare 00:23:44** No, I think it's good and it's a good way to, you know, summarize this what we've been talking about.

**Austin Hare 00:23:49** So as we're coming up to the end here, is there anything that you want to talk about that we didn't get a chance to talk about yet?

**Mike Murphy 00:23:55** I don't think so. I think I think the last kind of tips for teens I would do is to just to make sure folks don't fall in love with their own brand. Because of these entrepreneurs. God bless them because they're the folks that make the world go round. And they get told all the time that they can't do something right. You can't do this. You can't do that. Henry Ford said, if I listened to my customers, I'd make a better horse. So there's a lot to be said for that resiliency in that drive, that push back and push through objections. But sometimes those objections are telling you something that you need to listen to. And sometimes entrepreneurs get locked in. They believe in their product. They have a kind of will to win, and they miss an opportunity to innovate. For those that are out there in the building of the business.

**Mike Murphy 00:24:40** First of all, congratulations. God bless you. Thanks for your innovation. And because that's the stuff that gets me excited. I love working with folks like that, but don't be afraid to check yourself and challenge your own premise. Don't be

paranoid about it, but don't get locked in where your opinion becomes dogma, because then you're going to find yourself in trouble.

**Austin Hare 00:24:57** I love it. Cool is what's a good resource for people to reach out and learn more about what you guys are doing.

**Mike Murphy 00:25:03** Yeah, they can come right to our website, [www.sunstonemanagementadvisors.com](http://www.sunstonemanagementadvisors.com). We'll put a link in when you launch this. And they can actually book an appointment if they want. Great. We have case studies and best practices and but also if folks just want to pick up the phone. I spent a fair amount of my time just an informal "brain pickage". I love the journey and mission. I love the business. I once heard a CEO said that business was that lost juice we got when we were no longer athletes? We were able to run out of the field, right? So this replaces that kind of excitement? Yeah.

**Mike Murphy 00:25:35** And so I'm happy to spend time with folks and engage in informal brain pickage and to try to bring value any way I can.

**Austin Hare 00:25:43** I love it. Mike, this has been awesome, man. Thanks for coming in.

**Mike Murphy 00:25:47** I enjoyed it.

**Announcer 00:25:49** If you need help finding the perfect location for your practice or you're ready to invest in commercial real estate, email us podcast at [re.As.in@realestate.com](mailto:re.As.in@realestate.com) or go to [re.As.in.com](http://re.As.in.com) and fill out our form. See you next time.