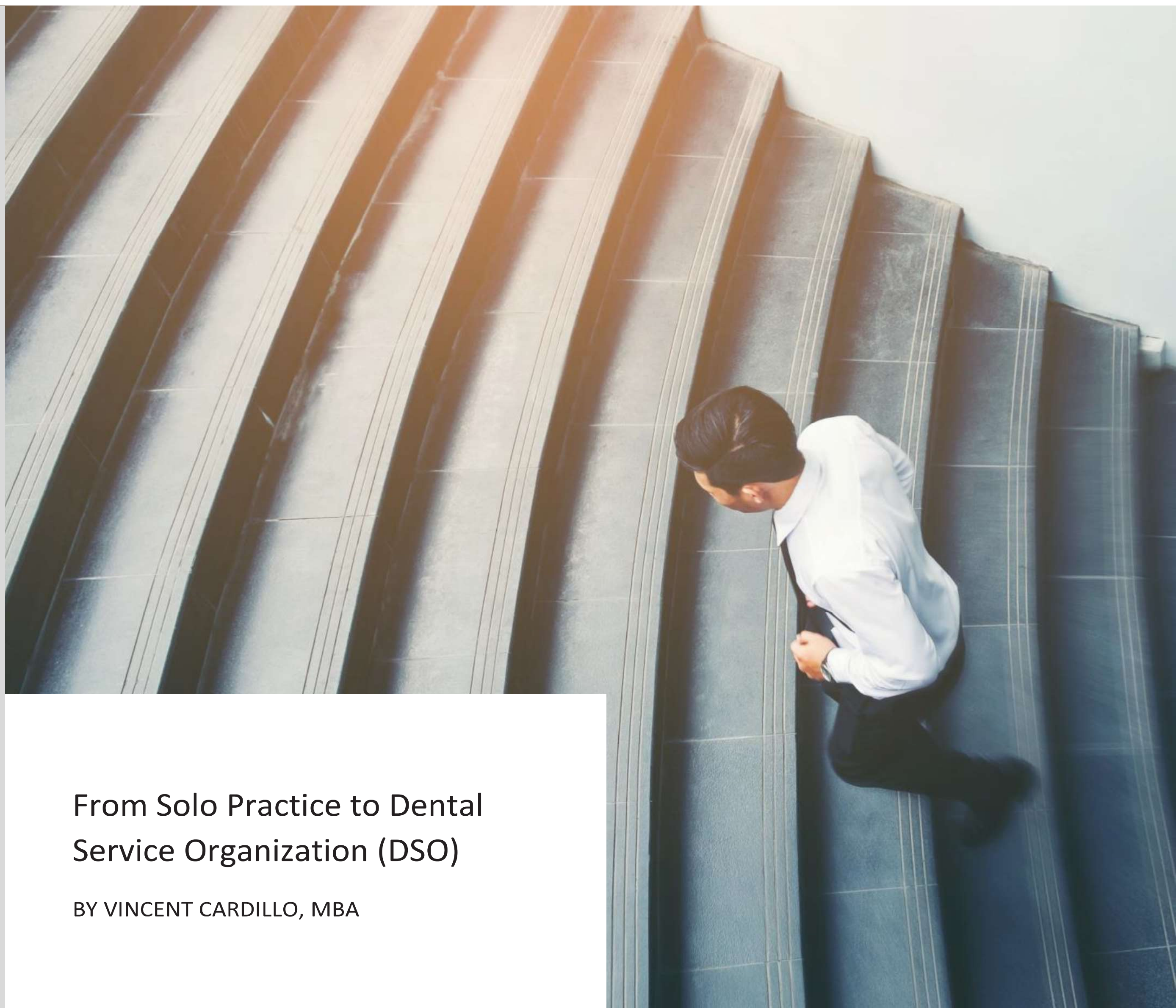
E-BOOK

THE SIX STAGES OF GROWTH



From Solo Practice to Dental Service Organization (DSO)

BY VINCENT CARDILLO, MBA

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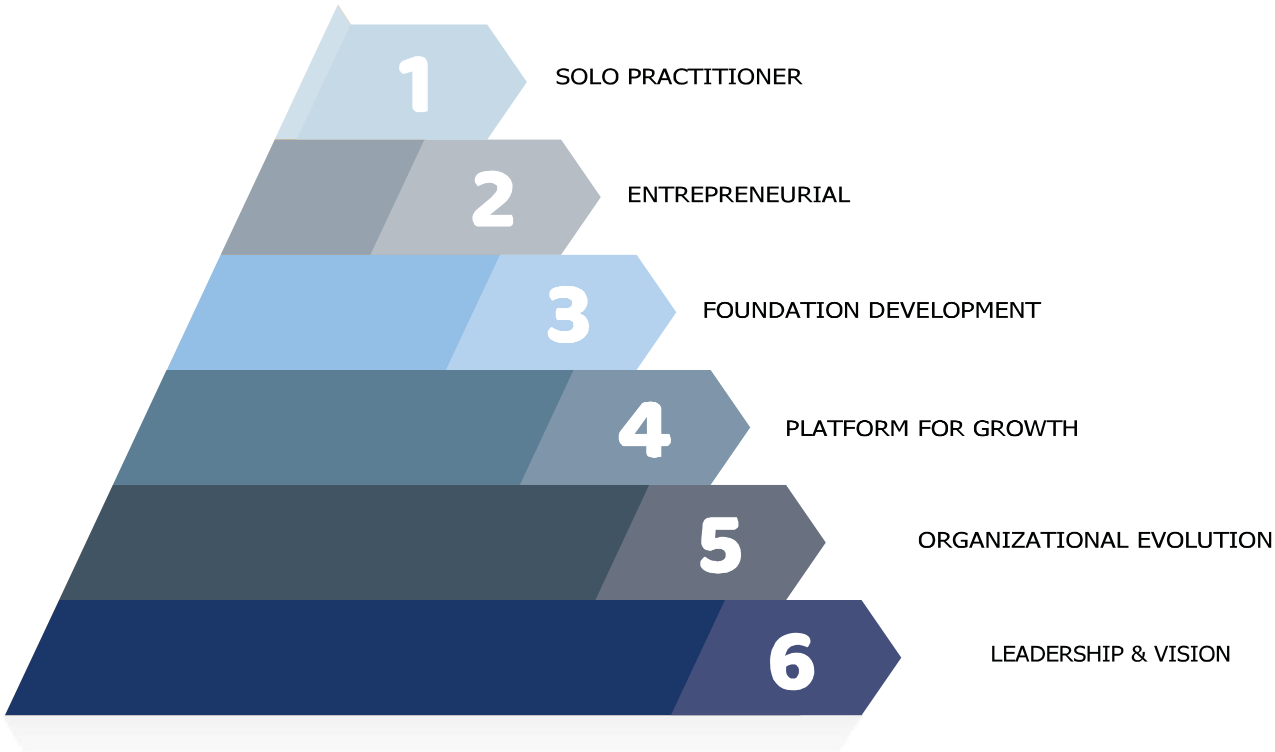
About the Author

Vincent Cardillo

Vincent Cardillo, MBA, is a proven industry leader with more than 20 years of experience in leadership and partner roles with growing DSOs. Vincent's company's latest ranking is #14 on the 2014 *Inc.* 500 list of fastest-growing private companies, with growth of 12,896 percent. Vincent is also the founder of Dental Management Innovations (DMI), LLC, which provides outsourced C-suite services to dental groups and single offices that have the intention of growing. DMI positions its clients for long-term growth by strengthening their operational systems and infrastructure. Vincent also provides his expertise in operations, strategy and financing to private equity firms and other financial institutions. The information in this e-book is from Vincent's book on the Six Stages of Growth, which is soon to be published. Contact him at: Vin@dmidental.com

Overview: The Six Stages of Dental Practice Growth



Look at just about any report on the status of the dental industry today, and you'll see that private-equity-backed dental groups, including group practices and dental service organizations (DSOs), are growing across the board, with some estimates putting growth at three times the rate of the dental industry as a whole. It's also estimated that these groups make up 15-20 percent of the market and that they will expand to 30-40 percent. In addition, some 1,800 emerging group practices (two to 20 locations) have seen considerable growth in the past eight years.

If you're considering building a multisite dental group, you need to have a sense of what lies ahead of you before you begin building new offices or acquiring existing ones. Growing a practice from a single office to multiple locations isn't easy, but it can be done logically and in progressive steps that build on each other so you develop a solid foundation for future growth.

It took 20 years of growing dental practices as an entrepreneur for me to realize that as diverse as dental practices can be, they each progress through the same Six Stages of Growth. Below is a brief overview of each stage, which I will then dive into individually in this e-book.

Stage 1: Solo Practitioner (1 office)

This is the stage where you define yourself: You choose your niche, establish where you want to practice, create your brand identity and develop your practice's culture — your mission, purpose and values. You could stay here with one office or take the next steps toward entrepreneurial growth.

Stage 2: Entrepreneurial (2-3 offices)

One of the more challenging of the Six Stages, this is where you assemble significant parts of the foundation on which all future practices will be built, including officewide systems, and policies and procedures. You put clinical mentoring in place and identify and track essential metrics. You are the biggest producer for the practice and are running between the offices in order for each to be profitable. You wear many hats, including launching marketing campaigns and paying your own bills, but you likely struggle to be a good manager and fall into the trap of micromanaging. However, you are figuring out ways to foster a strong culture and to encourage your team with regular team meetings and an incentive plan.

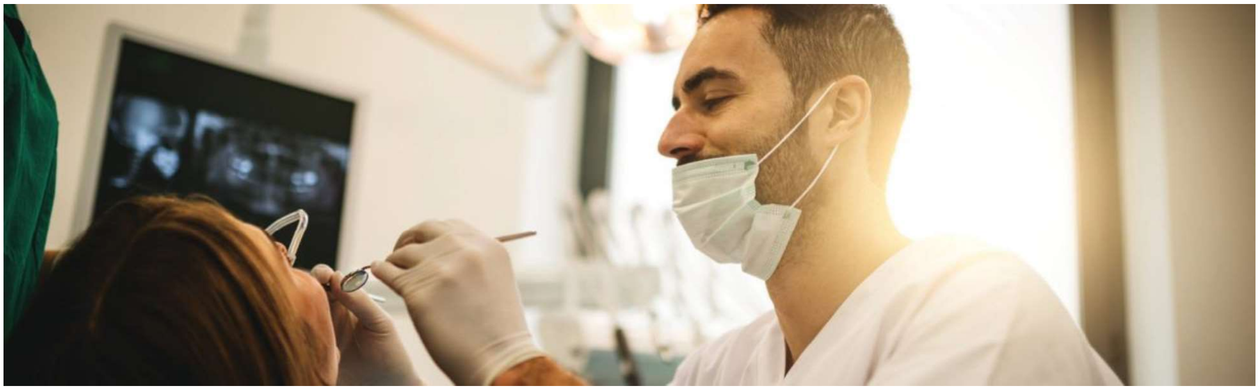
Stage 3: Foundation Development (4-9 offices)

With a few practices under your belt, you are starting to define your business model — in particular, whether you are going to centralize or decentralize certain functions of the business, and whether you will deploy an acquisition or de novo strategy. In addition, you choose between a branded or nonbranded model. There is no right path to choose, but you need to understand the pros and cons of each as they will affect how you build your team and where you focus your resources. You begin to run your business off clinical and financial metrics rather than your bank account balance or your instincts. You evaluate how to leverage your resources by using outsourced vendors. You are getting better at hiring the right people and putting them in the best roles possible. You are developing a mentoring program for your dentists and taking the crucial step of investing in your training program to ensure your team provides consistent care and customer service for your patients across all offices. You are learning how to become a better leader and how to delegate, and you've likely realized that your practices run fine when you're not in each one every day. They may, in fact, work better.

Metrics

Whatever stage you're in, you must have easy access to your data so you can measure progress and recognize potential areas for improvements. This requires practice management software that allows you to track your bottom line with key data to determine what's working, what isn't and what you need to change to get stronger. Henry Schein One solutions deliver powerful reports that can give you a better understanding of your practice's strengths, weaknesses and opportunities.

Practices in Stage 1 have a variety of options for practice management software because their data isn't distributed across many locations. But as your organization expands, keep in mind that you'll need to better centralize data. As you feel those growing pains, it's time to move up to software that can support multiple locations and allow you to manage data across your offices.



Stage 4: Platform for Growth (10-20 offices)

With more offices coming on board, you need a designated team to integrate acquired offices and/or to launch de novo offices. If bringing on partners as a part of your platform for growth, you may want to establish a path to partnership. In this stage, financing for growth often becomes more difficult. You further define your role in the company: Are you a chief executive officer (CEO) or chief dental/clinical officer (CDO/CCO)? Once you decide, you need to actively search and hire for the other position.

Stage 5: Organizational Evolution (21-40 offices)

By now, you've evolved your clinical and operational systems, and you've continued to build your practice support team. This includes increasing your focus on your business development team and investing in the highest level of leadership, including a CEO, chief operations officer (COO), chief financial officer (CFO) and CDO/CCO. You may have received third-party investment and/or negotiated with your lending institution to increase your borrowing capacity, and you may even have been able to remove personal liability.

Stage 6: Leadership & Vision (41+ offices)

In the final stage, you continue to build out your executive team by hiring, for example, a chief marketing officer (CMO). You also bring in-house most third-party outsourced services, such as IT, legal, compliance and other services that make the most economic sense for your business model. Prior to this stage, you may have operated in one geographic region, but now you are evaluating or have expanded into markets in new states, and you focus on developing techniques to maintain consistent communication and culture across states. If you haven't received third-party financing in Stage 5, you may need it now, depending on the speed of your growth. At this point, the addition of a new office will barely impact your day-to-day operations. From this point on, it's a matter of repeating your proven system. By Stage 6, the primary limit is your vision for growth.

By understanding what lies ahead, you can spot opportunities and avoid pitfalls while maintaining your sanity, which often feels like the first thing to go when you start growing beyond a solo practice. You'll make mistakes along the way, of course — maybe growing a department too fast or missing a training opportunity. But if you have patience, stay committed and learn from the trials and errors of those who have walked before you, you are far more likely to succeed. Welcome to the path of building your own multisite dental group.

Stage 1: Solo Practitioner (1 office)

As you enter Stage 1, you likely have been working as an associate and are being mentored by an established dentist-owner about the business and clinical aspects of the practice. After honing your clinical abilities and observing the operations on a day-to-day basis, you may start to think you can own your own practice. Or, you may be a current dentist-owner wanting to expand but experiencing challenges relative to niche, location or office culture, preventing you from transitioning into Stage 2 (two to three offices).

In either case, the five components of Stage 1 are your blueprints for success: niche, location, buy or build, office name and office culture. Importantly, these are all intertwined, so you will need to make choices in tandem.

Niche

Niche is defined as a key segment of a market. This means the type of dentistry you want to practice; implantology and cosmetic dentistry are examples of niches. So, what type of dentistry will you practice? This decision is often based upon your interests, education, experience and passion, as well as the demographics of your chosen market. Identifying your niche serves as a key mark in determining where you are potentially going to be practicing. It is important to complete basic demographic research, including gathering census information and investigating the number of offices by niche that exist in your location of interest.

Location

Where will your office be located? Your niche is partly determined by your location and vice versa. You will need to complete similar market research to identify your target community. For example, if you are interested in pursuing Medicaid,

Practice Management Software

In Stage 1, you will be investing in dental hardware and software that will likely follow you long term. If you are planning to grow, you need to be even more cognizant of how the practice management software you choose now may support or even potentially disrupt your goals.

Here are a few things to consider:

- How easy will it be for staff to learn the software? How much training will it require to fully utilize all of the features?
- Does it support centralized billing and accounting, insurance management and collections?
- Can it provide you important metrics for a solo practice in a way that makes sense to you and you can use? What about metrics you could need for several offices?
- Can you customize reporting?
- Does it have a database that could eventually be shared by your other offices?

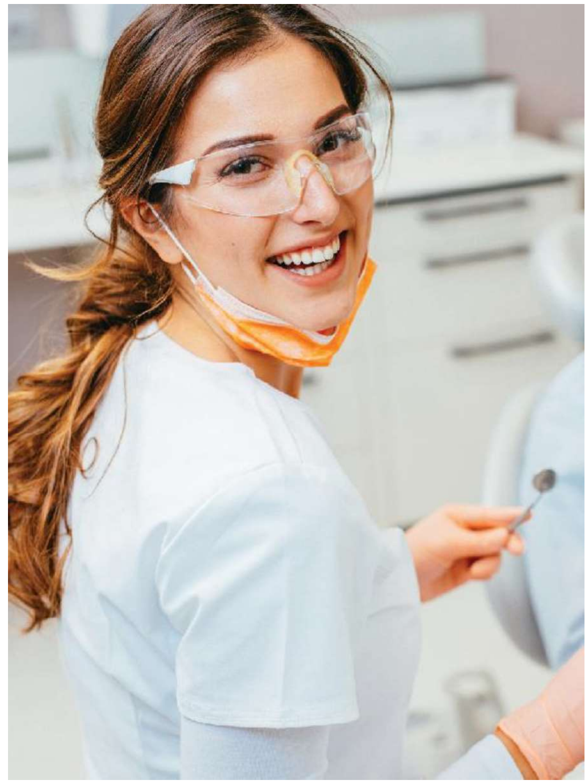
As with many of the decisions you make in Stage 1, your IT solutions, which determine the type of data you can track and what reports you can produce, will impact how the rest of your practice functions. Your software is an important investment that should be based on your long-term goals and not just what's cheapest or sufficient in the short term.

which often predominantly serves children in areas with lower household median income, the demographics around the location must be in line with those needs. Many believe a high-profile location is paramount, but this is not always so. While visibility and accessibility are valuable, a successful site is based on marrying your patients' needs with location availability, market costs and growth opportunities.

Buy or Build

Associated with niche and location, the decision to either buy an existing office or build one from scratch (also known as de novo) is often either a personal or financially driven choice. Again, there is no correct answer, and while it affects your practice today, it will not necessarily impact subsequent offices. In either situation, appropriate bank financing is often necessary. Banks typically finance the purchase of an existing practice more eagerly than a de novo because the existing practice already has an established patient base and cash flow.

Buy: In order to locate an existing office to purchase, you may reach out to dental office brokers, inquire with dental reps, network with colleagues and review classified ads made available through local dental associations. When one office emerges as a forerunner, you can submit a letter of intent, which will allow you a predetermined number of days to complete the purchase and sale agreement, line up your financing and complete due diligence (both clinical and operational). I recommend you use the services of a third party, such as a member of the ADCPA, for the financial portion of the due diligence (a consultant that has experience in conducting due diligence on the operational aspects of the practice). You should also conduct



a chart audit to understand the clinical philosophy, opportunity and/or concerns.

As part of the purchase and sale agreement, one way to ease the practice transition between doctors, team members and patients is to have the seller agree to continue to practice for a set period. More importantly is ensuring that the hygiene team stays on board, since they have typically created a strong bond and relationship with the patients.

Build: If you choose *de novo*, you have the advantage to shape everything to your specific needs — from location to office design, equipment and team members. Consequently, you will need to build a patient base, which often involves signing up to participate with dental insurance plans and marketing. Once you identify the right location and space, connect with architects or your supplier's design division and a general contractor to determine costs for the build-out. Take these costs, along with the proposed lease terms and rate, to your accountant so she can build a budget that will allow you to understand your fixed costs and break-even point. You will have to be confident that you can surpass your break-even point in order to begin your successful practice.

Office Name

Your office name can communicate your niche, specialty, location or your name. Keep in mind, it is often a good idea to choose a name that would be applicable to a larger audience (don't be too niche-specific, for example). The naming process can be as laborious as you would like to make it, whether you pay for advice from a marketing expert or just go with your gut. Be sure no one else has the name locally, statewide or in neighboring states, because you want to ensure there is no brand conflict in the event of expansion. While you are mostly locked into the name for that office, once you expand, you aren't obligated to apply that name to your new offices.

Office Culture

Once you have defined your niche, determined your location, identified your practice name, launched your office and established your team, you begin to form an office culture. To have a positive office culture, you must define your mission, purpose and values (MPVs), which is a fundamental way to engage and inspire your team and increase both employee and patient retention and engagement. You can put incentives into place to motivate your team that represent your values. It is important that MPVs stay up to date so they can continue to positively influence office culture and be a guide for future growth.

With practice ownership, you must clearly define your personal and professional goals for the coming years. Let's look next at Stage 2 and the crucial transition of moving from one office to two to three locations.

Stage 2: Entrepreneurial (2-3 offices)

Stage 2 is one of the most crucial of all stages of growth. Notably, this is where your business moves from you directly managing and producing in one office to becoming a leader across two to three offices by delegating others to assume responsibilities, allowing you to mentor your clinical team and grow the practice. You'll need to concentrate on the following critical components in this stage.

Seeing the Big Picture

Do you understand your data and how to use it? Do you use your metrics to proactively make decisions? If each of your offices is running its own standalone software, your practice data is segregated into individual silos, making metrics difficult to track.

You can't just accidentally grow to a few offices. Your practice management software must deliver the data you need to support your growth strategy. In Stage 2, it's time to start thinking about centralizing, using software that can combine your disparate data.

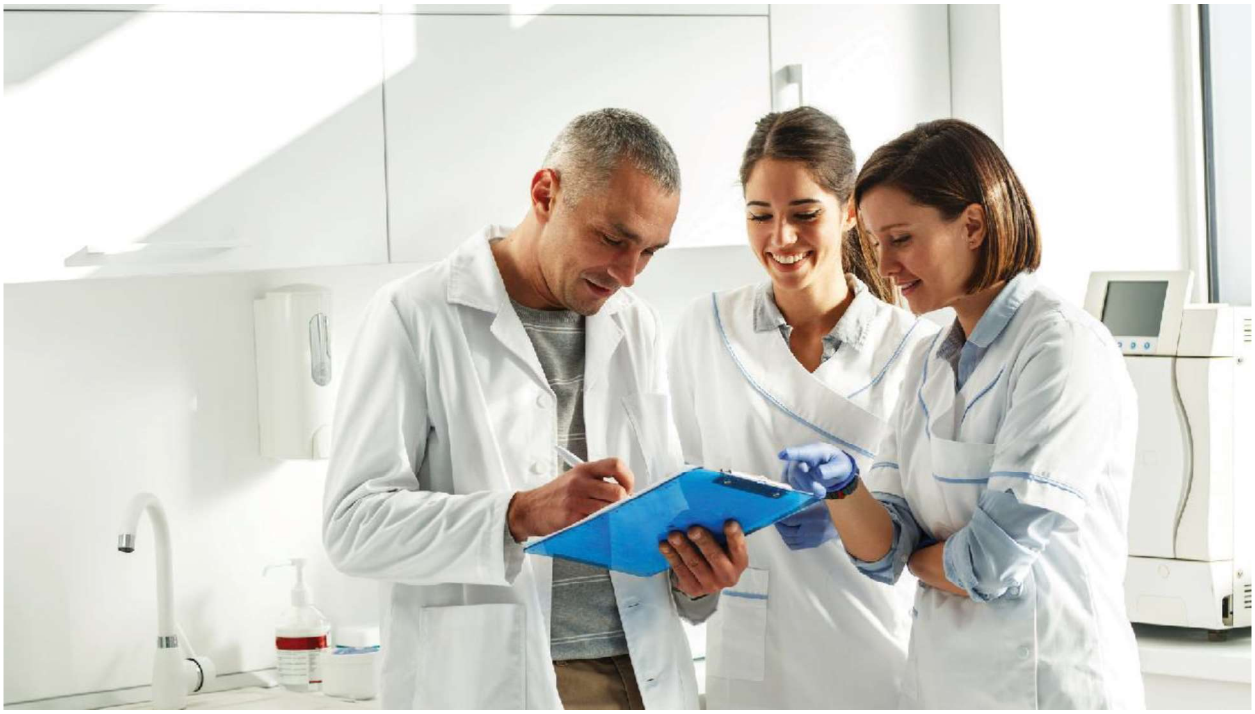
Group practice management software can help you understand the larger picture of what's happening across your entire business, so you can set informed goals and make smarter decisions, becoming a more effective leader and business manager.

Human Resources (HR) Management

The success of your offices lies within the talent of your employees and resulting teams. Ownership of two to three offices requires hiring additional employees and using a payroll service, an HR organization or internal bookkeeper to assist you with HR compliance (such as payroll, benefits, employee manual and OSHA training). Equally important is the designation of a regional or operations manager to oversee the day-to-day business operations as well as lead other aspects of HR (recruitment, hiring/terminations and reviews, for example). Because you are hiring and delegating responsibility, an organizational structure (org chart) is an invaluable resource to not only define who reports to whom, how and why, but also to substantiate your systems for accountability.

You may revise your org chart from Stage 1 or create one now. During this stage, one person may be responsible for fulfilling multiple jobs. Additionally, the identification of roles within your org chart may illustrate voids, necessitating the creation of additional positions.

Have your lead from each department build clear job descriptions for roles and responsibilities. Job descriptions should establish employer expectations and explain the employee evaluation process that is linked to specific metrics and an incentive program. Therefore, job descriptions not only become the basis for performance reviews, they delineate roles and responsibilities, which in turn become the foundation for your training and development.



Training and Development

To maintain cohesive teams among your two to three offices, training and development must occur daily. This entails daily morning huddles along with weekly, monthly and quarterly meetings to identify whether goals are being met and holding bridge training to answer development needs for your teams.

In addition to a communication protocol, you must have manuals for all roles, including associates, hygienists, dental assistants and front desk team members, to train, develop and sustain your teams. The creation of these manuals can be spearheaded by the leads in each department or obtained from an outside source and customized to your needs. These materials must be updated annually, and you must also document that your employees are trained on and adhere to their content. These manuals serve an important role as they create consistency for both clinical and nonclinical operations across all offices. In addition to using manuals, regularly scheduled mentoring sessions with associates are essential to calibrating your clinical standard of care.

As you mentor your associates, it is imperative that you assess their diagnostic capabilities by performing monthly chart audits and consistent clinical observation. Additionally, you will need to critique their clinical abilities through observation, chart audits and other mechanisms, such as evaluating the number of lab remakes occurring each month. Lastly, you need to monitor patient communication through observation, team member feedback and patient satisfaction surveys.

Regularly scheduled meetings with dental hygienists regarding periodontal philosophy/protocols, adjunctive products, scheduling and hygiene metrics, coupled with chart audits, will align your hygiene protocol.

Typically, when both operational and clinical calibration occur through training and development, you will see an increase in productivity while delivering your optimal quality of care. For example, if your two associates were to increase their hourly productivity by $50 per hour as well as your three dental hygienists by $25 per hour during a four-day workweek, this would equal an annual revenue increase of $280,000.

Metrics

Metrics, also called key performance indicators (KPIs), are the pulse of your practices and measure whether both your business and clinical objectives are being met and therefore have a direct correlation to your HR management as well as training and development of your teams. Granted, a plethora of dashboards are available to generate metrics, but you need to delineate which ones are important to you and your practice values. As a rule, understanding and using metrics corresponds to employee incentive programs that reward performance. Providing employees an incentive program enables you to drive employee engagement, promote office culture and increase earnings for all.

Financials

You must have monthly financial reports such as a profit and loss (P&L) statement and cash flow statement (especially important during times of growth) prepared for you by your CPA or bookkeeper. You will need to leverage their expertise to help you understand what the P&L means to assist you in making decisions that will have a positive impact on the sustainability of you practice. You should be receiving these reports by the 15th of each month for the prior month.

Because P&Ls are showing you a picture of the past, getting them after the 15th negatively impacts your ability to make changes immediately. It's prudent to sit down with whoever produces your financials and your operations manager in November of each year to start building a budget for the upcoming year for each office by month, and the same for the administrative office (back office). This will allow you to compare monthly what actually happened against what you expected to happen in your budget. This process will be educational for you and your operations team as you learn how and why there was a variance between the actual P&L and what you expected in the budget.

Work-Life Balance

If you don't delegate and hold people accountable, you can easily become trapped in this stage, hustling between offices, micromanaging and feeling like you are running on a hamster wheel. Once you have everything organized and are delegating while holding people accountable — and you also have the data that gives you the state of the practice at your fingertips — you will worry less and have more free time. As a result, you can use spare time for things you enjoy doing, such as exercise, spending time with your family and friends and working "on" your business instead of "in" it.

When it comes to opening a second and third location, learning how to delegate and instituting accountability are lynchpins to success. Putting HR pieces into place addresses compliance needs and increases productivity. At the same time, identifying the KPIs important to your business regulates training and development needs, while understanding financials will allow you to plan. Of course, compounding stress is damaging; therefore, achieving work-life balance will equip you for success during this critical stage.

Once you accomplish Stage 2 and you decide to take further steps toward entrepreneurial growth, it's time to look at Stage 3.

Stage 3: Foundation Development (4-9 offices)

Stage 3 (four to nine offices) is your “aha!” moment, when you realize that things will run just fine when you aren’t there. You’ll be deciding what functions to centralize or decentralize while outsourcing tasks to ensure you have the best people completing the job. Additionally, as you continue to leverage resources and scale your business, you’ll need to consider following either an acquisition or de novo model, while determining whether your locations will be branded or nonbranded.

Centralized vs. Decentralized

An important decision to consider is whether to centralize certain functions within your organization or continue to operate them in a decentralized fashion. All administrative functions (which include anything that is performed repeatedly on an ongoing basis) can either be centralized and managed through a central office location or decentralized and managed within individual practices. You need to ask yourself, “What is the best choice for each function that aligns with my core values?” There is no right or wrong answer. As you understand the pros and cons, you can make the appropriate decision.

As an example, some areas almost automatically become centralized, such as HR, accounting and marketing. After you identify those, you will discover areas that can be both centralized and decentralized, such as payment posting. For example, third-party payments can be directed to one centralized location for one person to post

Centralized Data

Do your offices use different dental practice management software? Or do they use the same software, but each office runs its own standalone version? While the staff at each location may be comfortable with their individual systems, you're not fully leveraging your software if you don't have ready access to all the data you need or in a way to compile it quickly for a full company overview.

Do you go through the labor-intensive process of logging in to each office's databases to view data, and then manually collecting and compiling the information you need? This is a cumbersome, Band-Aid approach that's not sustainable.

In Stage 3, it's time to switch to multisite practice management software which will centralize your data in one database that can be viewed at each location. Practice management software that's built for group practices becomes a standard, single platform that unites your offices and your data. Henry Schein One software combines practice management, marketing and patient engagement solutions to help you improve every aspect of your business.

There never seems to be a convenient time to get everyone switched to a new system and trained, but this issue needs to be resolved before you add more locations and people to your team. When you look back, you'll be glad you made the move now.

checks, while your over-the-counter payments could be handled by each practice location.

In addition, different types of dental software may dictate how much you may or may not be able to centralize. At this stage, you should strongly consider using enterprise or cloud-based software that allows everyone to access data without delay and assists you with centralization. Centralization is a big expense, but the benefits are realized over time. If you want to continue to grow your practices, making this long-term investment is critical. Look beyond short-term profitability and make decisions based on your long-term goals.

Outsourcing

Outsourcing is the business practice of hiring a third party to perform services that are traditionally performed in-house. Similar to systematizing functions through centralization or decentralization, outsourcing allows you to use a higher caliber person for the job at a fraction of the cost. At this point, you need access to professional people, but your budget won't allow you to pay for full-time employees in these roles. The corporate office budget should run between six and 10 percent, depending on how centralized your practice is and your rate of growth. In fact, if you are experiencing rapid growth, you could see this number be 15 percent or greater. That budget should dictate how much you should spend and where.

You could outsource the following areas:

- Chief financial officer (CFO)
- HR
- Bookkeeping/accounting
- Call center
- Provider credentialing

- Fee schedule negotiations
- HIPAA and OSHA compliance
- Insurance verification, claims statusing and payment posting
- Information technology
- Marketing
- Patient reactivation
- Training

Outsourcing is a valuable extension to those functions, either centralized or decentralized, within your organization. Outsourcing allows you to free up internal resources that can be redirected toward growth opportunities (for example, the purchase of additional practices).

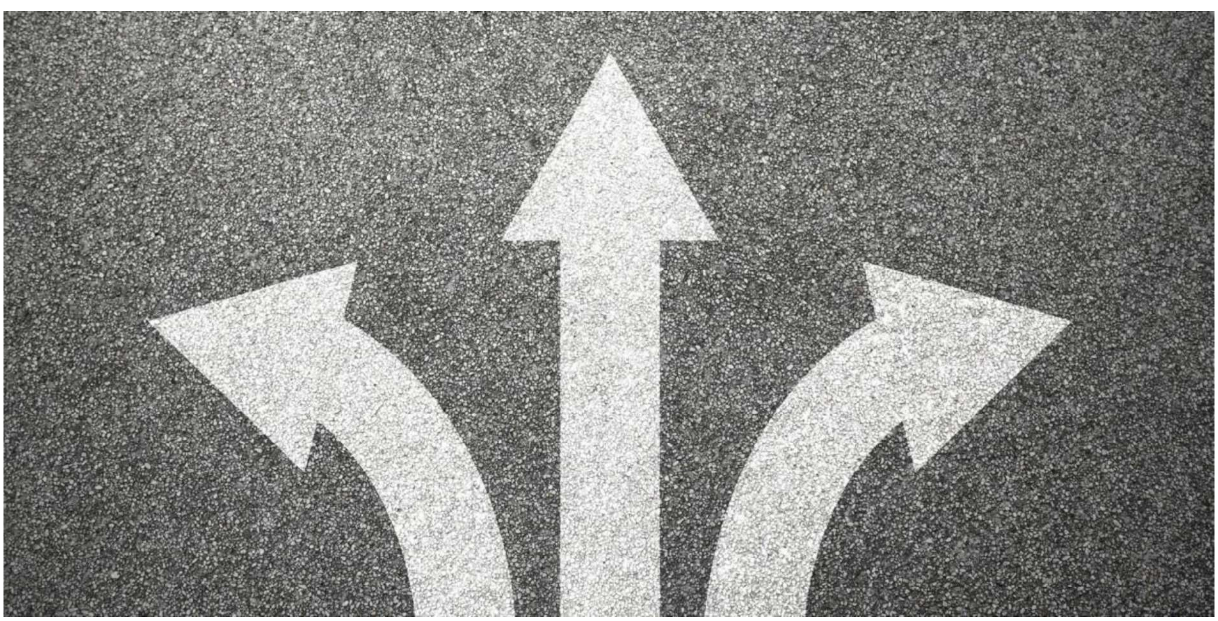
Acquisition Model vs. De Novo

Along with decision-making around centralization/ decentralization and outsourcing is selecting your growth strategy. Your ongoing growth can occur by either acquiring existing dental practices (the acquisition model), establishing de novo locations (building up from scratch) or a hybrid model. By this point, you have either followed an acquisition strategy, built up de novo or you've completed both. Before you move forward, reflect on the following questions:

- "Throughout Stages 1 and 2, which locations have given me the best return on investment?"
- "Which ones have been smoother transitions for me?"

Considering your answers will help you weigh the advantages and disadvantages of each model.

With a de novo strategy, a key advantage discussed in Stage 1 — culture — can be extended throughout your practices by hiring and training beforehand, so the team is prepared when you turn on the lights. However, keep in mind, it is typically more challenging with de novo practices to secure financing because they lack an established cash flow.



A key advantage to following an acquisition model is having established cash flow, resulting in greater access to capital. However, unlike de novos, the culture of the practice is already established and may conflict with your MPVs. The layout of each practice will also differ from each other and may not be suited to your preferences, requiring additional capital. Take this under consideration, because it will be in addition to your acquisition cost.

There are clear advantages and disadvantages to both models. You can commit to one or the other, but you may have to change your decision and use a hybrid approach to sustain growth plans. For example, you may be interested in an area that may not have any practices to acquire. Rather than waiting until the office you desire becomes available for purchase, you shift to a de novo model. Likewise, you may acquire a practice and relocate it into a de novo location if you are interested in a particular real estate space. However, in this case, you need to take into consideration the price of the practice, in addition to the cost of the build-out, which will give you the total purchase price.

Branded vs. Nonbranded

At this point, you may have both branded and nonbranded practices or be committed to one or the other. You need to ask yourself, “Who do I want to be?” Your answer should depend upon your understanding of the features of both and the direction you want to take that aligns with your mission.

A branded model provides uniformity across all spectrums of your marketing strategy and maximizes your marketing dollars. For example, you can use one website to drive the same message across your four to nine offices, and all individual office collateral would be ordered in bulk to reduce costs. This model is oftentimes considered easier because you are working with one focus as opposed to having many different names and materials to juggle.

Keep in mind, reputation may become a problem, if there are, for example, bad reviews on your website, or you are audited or sued and this becomes publicized. Also, that risk becomes bigger with more offices. As a result, office culture may become tarnished, and recruitment may become a challenge. Additionally, there could be a disconnect between the practices and the community in a branded model because of stigma associated with large corporate dental groups.

Using a nonbranded approach, you can create whatever name you want for a de novo, or you can leave an existing name for an acquisition. Unlike a branded business, you reduce the risk of widespread negative publicity because it impacts one particular practice only. Keep in mind, managing multiple brands will require much more effort than managing one. In addition, it could preclude you from using marketing channels. For example, running television ads in a local market could be cost prohibitive if you have four to nine offices with different names.

With the establishment of four to nine practices, you have the knowledge to further define your growth model. Specifically, your business acumen helps to determine whether you centralize or decentralize certain functions, what you need to outsource while you continue to grow following an acquisition or de novo strategy and if you will follow a branded or nonbranded model. Further steps toward growth will lead you to Stage 4.

Stage 4: Platform for Growth (10-20 offices)

In Stage 4 (10 to 20 offices), as you continue to add practices, you need to create a transition process that systematically integrates acquired or launches de novo practices. You need additional doctors, so you must consider both the associateship and partnership models. You also must define your role in the company and determine if you are the CEO or CDO/CCO. After you decide who you are, you need to actively search and hire for the other position.

You need to make decisions around components such as your transition process, associate or partner models, and your role in the organization.

Transition Process

If you haven't done this already, designating a transition manager at this stage is your first step. This person must spearhead the pre- and post-practice transition process by creating an inclusive list of tasks and timelines for completion. This list includes items that fall under the business, operations and clinical departments within the practices. To ensure all items are covered from these departments, the transition manager will need to collaborate with department leads. Accordingly, this comprehensive task list and timeline become your transition playbook.

Both the acquisition and de novo models have their own unique playbooks. In the event you are completing an acquisition(s), you must share details of the playbook with the acquired team in advance to establish their buy-in and alleviate fears about the transition process and changes. Remember, change is difficult, and you'll want to avoid the team feeling alienated, because this can

Centralized Insurance

Using cloud or enterprise practice management software that is designed for group practices centralizes your data from all offices. This has many benefits as you grow in Stage 4. For example, you can create new efficiencies across your organization for insurance processes and procedures.

With all offices' information in one database, you're able to outsource insurance verification (or create an internal person or team that manages it centrally for your whole organization), since that is likely eating up too much staff time right now. Instead of relying on your front desk employees at each office to take care of insurance, you can move not only verification but collections, claims tracking and check posting processes to a single group of specialists with security rights to appropriate insurance information in your software.

This returns precious time to your front desk that can be better spent helping patients in the office, bringing in new clients, scheduling existing ones and calling long-time patients to bring them back in.

deteriorate office culture and lead to staff turnover.

In contrast, while completing de novo transition(s), you establish everything from scratch and bring in a pretrained team as well as established systems and policies. While following either model, the transition manager must closely monitor and ensure all timelines are on target with the appropriate department. Together with identifying your transition process as part of your platform for growth, you must designate the model by which you will grow your doctor team.

Associate or Partner Doctor Models

Over the past few years, we've seen a push from associates requesting partnerships. From my perspective, this may be due to younger dentists coming out of school with a large amount of debt that would have typically been used to purchase their own practices. Also, with the growth of the emerging groups and DSOs, there is increased demand for practices, driving up the cost in many markets across the United States, which also makes it more difficult to purchase a practice.

Additionally, we see dentist-owners of emerging group practices experiencing turnover and having difficulty finding qualified candidates, in turn influencing them to think the solution is to bring on a partner. Many times, this decision is made from a position of fear, without the owner having yet chosen either the associate or partnership model and understanding how either would impact their future. For instance, if the partnership model is selected, what level is their participation (office or group) going to be?

If you choose to follow the associate model, you need to invest in recruitment. If you follow the partnership model, you need to spend your dollars on legal documents with attorneys. Either way, you must commit to a model and point your dollars in the appropriate direction. Remember also to continue investing time mentoring your doctors (as noted in Stage 2), regardless of their title.

When selecting the partner model, do not to rush into anything. You must define expectations

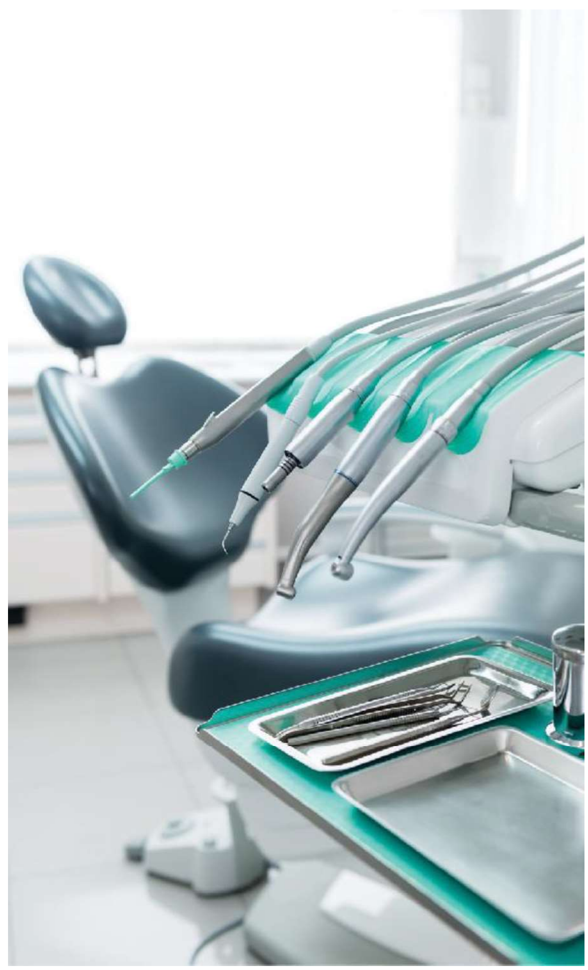
of the doctor. Understanding why the associate is seeking partnership is equally important, because in many instances, the needs are also attainable in the associate model, with potentially less risk for both parties. Both parties require time to work with each other, which typically spans a period of two to five years. We refer to this time as a path to partnership. During the path to partnership, you may lay out annual requirements, that may include community involvement, productivity expectations, clinical philosophy and which CE courses to take.
When you are ready to partner, the operating agreement of the partnership will identify the legal rules of engagement for all parties.

Lastly, just as you've defined whether you will follow an associate or partner doctor model, you must define who you are and what role you will play in the company.

Who Are You: Chief Executive Officer (CEO) or Chief Dental/ Clinical Officer (CDO/CCO)?

At this stage, you need to ask yourself, "Am I the CEO or CDO/CCO of the company?" Your answer to this question cannot include you serving within both capacities, since each is a full-time job. A CEO is going to deal with all of the nonclinical aspects of the business, while the CDO/CCO takes care of the clinical aspects. In my estimation, there are currently 75 private-equity-backed DSOs, of which less than 20 percent have a dentist serving as the CEO. If you have a strong desire to be the CEO, you need to obtain the necessary education, training and development to be successful in this role. In contrast, if you decide to be the CDO/CCO, you will have to search for and hire a CEO. In my experience, searching for and hiring a CDO/CCO is more challenging.

Now that you have grown to up to 20 practices, you've established your platform for growth. This platform systematizes everything, making it easier to carry out future development in Stages 5 and 6. Specifically, you establish your transition process and establish if you will follow an associate or partner doctor model. Also, you determine your identity as either the CEO or CDO/CCO of the company and hire for the remaining role. Future growth will depend on steps that you take in Stage 5.



Stage 5: Organizational Evolution (21-40 offices)

Stage 5 (21 to 40 offices), steps include establishing your C-suite, looking at financial restructuring and creating a call center.

C-Suite

C-suite means the top executive or highest level corporate positions in a company. For example, a CEO is a C-level position. In Stage 4, you laid the foundation for your C-suite when you identified your two most critical positions — CEO and CDO/CCO — and defined your role within the company. C-suite executives share common responsibilities, such as strategic planning and operational efficiency.

Like personnel decisions made in the prior stages of growth, you must have the most qualified people in your C-suite. The most appropriate candidates may already exist within your company, which means you upgrade their positions. However, external recruitment is necessary to ensure that you also have the appropriate people to complete your organizational structure needs. At this level of growth, your org chart should be composed of people who have experience with the management and operations of companies that generate $100M or more, because they understand the steps necessary to scale growth.

These five C-level positions need to be filled at this stage of growth:

1) Chief financial officer (CFO), who oversees the financial operations of the entire company. The controller and director of new purchasing report to this person.
2) Vice president of operations, who oversees the regional manager as well as the call center and transitions department.
3) Human resources director, who is directly responsible for the overall administration, coordination and evaluation of the human

resources function, and oversees the director of education, training and development.

4) Director of business development, who will assist with strategizing future locations, including acquisitions or de novo practices.

5) Vice president of marketing, who will spearhead marketing strategies for the nonbranded or branded practices.

While you began to form your C-suite during Stage 4 and you will round out the remainder of the team during Stage 5, the following two areas (perhaps started during prior stages) should be addressed during Stage 5.

Financial Restructuring

You have reached this stage with assistance from any or all of the following: outside investors, operational cash flow, debt or partner buy-ins. By this stage, you must understand that all banks have a lending ceiling for borrowers. This ceiling is based on the bank's size, which is based on the bank's total assets and risk tolerance. For example, a bank may have a $5M or $10M maximum and may include real estate holdings. If you know you have a maximum of $20M and you've used $10M in real estate, you only have $10M remaining for your practices. It's probably worth sitting down with a financial advisor to evaluate if it makes sense for you to take this leverage and invest in real estate or dental practices. Keep in mind that during the past 15 years, returns on dental practices have been higher than on real estate.

Additionally, you are most likely personally guaranteeing the debt during the stages of growth. It is important to note that during good financial times, when your business reaches a certain size, you may relinquish the personal guarantee. If you choose to avoid the personal

Call Center

Requiring front desk staff at every office to be constantly on the phone is a time and productivity drain. This also draws them away from paying attention to the patients in front of them and creating a positive in-office experience. Outsourcing calls to an external company or creating your own internal group of dedicated phone agents maximizes efficiencies even further in Stage 5.

Phone agents have access to a single appointment book, patient and provider records and insurance information, so they can handle:

- Insurance verification
- Recall
- Bringing in new clients
- Scheduling
- Provider credentialing
- Insurance fee negotiations

By using a call center and providing clear areas of specialty for staff, you can grow your employees more effectively, helping to improve your overall practice performance.

guarantee, you may seek separate types of lenders that will lend without this, with the caveat of paying double or more.

With this in mind, you need to seek alternative forms of financing to continue the growth of your organization — for example, an employee stock option plan (ESOP). With an ESOP, employees end up owning the company over time. Or, you could seek to sell a portion of the entity to a private-equity firm that would assist you with the growth of your company at a much faster rate. Just as you look to restructure your financial liabilities, you must continue to focus on creating maximum operational efficiencies by leveraging centralization within your company. You can do this, for example, by creating a call center.

Call Center

A call center depends on the centralized database of your group practice management software discussed earlier. The call center will help you deliver an optimal patient-centric experience by using the best people to service specific types of phone calls. When you create a call center, you must consider both inbound and outbound calls. Inbound calls include new and existing patient phone calls, while outbound calls include patient confirmations, reactivations and scheduling open treatment plans.

When you create your call center, focus on one area at a time. I recommend you begin by focusing on inbound new patient calls, because this is a primary growth factor for dental practices. In fact, based on industry numbers that I've seen, 30 percent of all phone calls go unanswered. In the case of inbound new patient calls, you may be losing these patients simply because of an unanswered phone. That is a costly mistake because marketing and advertising dollars spent to acquire new patients are adversely impacted every time a phone call goes unanswered. You may also consider assigning each marketing campaign its own dedicated phone number so you can track the effectiveness of the strategy and determine if your dollars are being well spent.

Do not discount the relevance of outbound patient reactivation calls: Patient reactivation is another new patient channel. Additionally, the cost to reactivate a patient is less than the amount spent to acquire a new patient.

Consider the following characteristics of having a call center. First, the driver of a call center is call volume. Call volume is established by the number of practice locations or practice types. For example, specialties such as orthodontics and pedodontics are high volume and automatically justify creating a call center.

Second, a call center generates efficiencies, thereby minimizing office payroll. If payroll is minimized, production is increased, so the patient experience can be improved. Third, a call center allows treatment coordinators to spend more time with patients and improve case acceptance. Therefore, a call center not only improves operational efficiencies but also provides a cost savings to the company while improving the patient experience.

In summary, with ownership of 21 to 40 practices, you continue to evolve your organization. This is done by creating your C-suite, while considering financial restructuring and creating a call center. Once you accomplish Stage 5 and decide to continue your organizational growth, you will progress to Stage 6 (41-plus offices).

Stage 6: Leadership and Vision (41+ offices)

In this last of the Six Stages of Growth, Stage 6 (41-plus offices), you can continue to duplicate the model you've created. This is also the time to bring departments previously outsourced back in-house, accentuate leadership development and training and ensure effective communication systems are in place.

Moving Functions In-house

With more than 40 offices, it's time to reevaluate your outsourcing strategy, because at this point you can afford to hire the best! During prior stages, cash flow and financial resources influenced you to seek alternatives to hiring full-time team members to take on a role or manage a department. In fact, you may have used virtual team members and third-party organizations to leverage the expertise of trained professionals to assist in scaling a department or to be one of your departments. However, at a certain point, the price for such a service becomes more than it would be to bring that function in-house.

As an example, you may evaluate your legal expenses and determine that you can hire someone in-house for less than you're paying your current firm. This same model could be used for other departments within your organization.

With the C-suite continuing to expand, and the practice support team growing internally, it's time to revisit your leadership, training and development to ensure there is high-level, ongoing growth that focuses on your organization's values and the future of your leaders and teams.

Strengthening Leadership

As you continue to grow practices, it is imperative to strengthen your training and leadership development programs. Importantly, the leaders of the organization must identify, train and mentor future stars, not only to support the size and growth of the organization, but also to make subsequent growth as seamless as possible. In fact, at this point, it will be paramount to hire a trainer who specializes in large organizations that will assist you with putting together a training and development curriculum tailored to your company's specific values and needs, for all teams — including the C-suite.

Additionally, forming committees is integral to training, mentoring and developing future leaders. These committees will help to identify, strategize and plan the roadmap for the future. As part of this path of leadership development, enrolling team members and doctors to be members of certain committees provides them experience working with other leaders and associates and enables them to be part of the decision-making process. Some committees to consider having are a dental laboratory committee (determines who the preferred vendors will be), quality assurance committee (oversees and manages quality of care) and supplies/technology committee (determines what materials should be used, and what new technologies exist that will be more efficient and provide better care).

Just as various committees foster better decision-making and leadership development within and across departments, establishing a communication plan within your organization is equally important to consider at this stage.

The Foundation

The secret to growing your practice is staying ahead of the game — continuing to build out your infrastructure so that it's ready to handle new offices as you bring them on. Over the Six Stages, you create a foundation for growth bit by bit that can hold up your organization as it expands through acquisitions, de novo practices or both.

Key to supporting your goals for growth is scalable software that is designed for multisite practices and can grow with your company through every stage. Your software plays a big role in your success because it allows you to:

- Centralize data in a single database
- Use a call center
- Centralize billing and accounting, insurance management and collections
- Get the metrics you need with custom reporting

One of the benefits of good centralized practice management software is the way it enables consistency across offices, so your practice is able to run more cohesively with standard policies and procedures. This then creates a culture of efficiencies that save time and money. When you multiply the effect organization-wide, it can significantly add to your bottom line.

Fostering Communication

Effective communication supports good relationships between you and your teams and enhances productivity while continuing to emphasize your values, positively impacting culture. You may have people working in different parts of the country, which poses challenges for when and how people are communicating across the organization. Therefore, determine how you will communicate (telephone, virtual or in person) and schedule, identifying who is communicating and how often.

For example, you need to determine how frequently and who needs to be a part of certain conference calls. In addition to regular calls, you need to establish how often small or larger live meetings and events occur, where they are held and who will attend. Additionally, you may want to consider incentivizing this process — for example, by inviting a top performer to attend with their supervisor. This type of employee incentive also positively impacts future leadership development opportunities. Live meetings may present significant costs and scheduling challenges, so using virtual meeting space is a good alternative.

Whichever communication methods you use, be sure that participants are prepared, contributing and engaged in the collaborative process. Keep the entire organization well-informed on everything that's happening within the organization. Use communication as an opportunity to continue to instill the values and culture that has made your company what it is today and what it will become in the future!

In summary for this stage, continue to duplicate the successful model you've already established, incorporating the best practices you've learned through the process of growing. After you have mastered this and the previous five stages, the number of offices you can grow to is practically limitless.

Conclusion

No matter what stage you're in, you have the opportunity to participate in a thriving industry. Whether your goal is to have two offices or 200 — or even 2,000 — the information in this e-book serves as an excellent starting point. From here, you can further educate yourself and enlist the help of your team, your peers and consultants.