Empowering Employees to Success – Part 1

Audio interview with Steve Bilt, president and CEO Bright Now! Dental

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Nancy Ellen Dodd: This is Nancy Ellen Dodd, editor of the Graziadio Business Report. Today we are speaking with Steve Bilt, who is president and CEO of Bright Now Dental Inc. and its subsidiaries. He also serves as president of the Bright Now Community Fund. In 2003 Steve was named Entrepreneur of the Year and he is a member of the Young President’s Organization. He received his BA in Business Economics from the University of California at Santa Barbara, and his MBA from the Presidents and Key Executives Program here at the Graziadio School of Business and Management at Pepperdine University. <music> Well Steve, thank you very much for coming today to talk with us.

Steve Bilt: Thank you for having me.
Nancy Ellen Dodd: So first of all, can you give us a brief overview of Bright Now? I understand that you have 300 offices in 18 states. Where are those offices located and is your business a retail outlet or a service provider or does it offer consulting services?

Steve Bilt: We’re spread coast to coast so we go as far as Virginia and Maryland and Philadelphia, down through Florida, across into Texas. We’re actually up in the midwest as well, in Ohio, and then come west and then up the coast. So our biggest concentrations are all throughout Texas, and Southern California would be our next biggest market. So we tend to have a leadership position through—actually we do have a leadership position through all four major Texas markets and then some good penetration in Southern California, and then going up the coast into Washington and Oregon as well. The— it’s interesting you ask the question as to whether we’re a retail outlet or a service provider, and my standard answer to that question is yes. And I say that because the concept really is meant to merge the two things in certain very specific ways. So what we try to do, because there’s a problem in this country relative to dentistry and that problem is people don’t get into care often enough, they don’t get into care for all kinds of reasons but generally ‘cause dental problems don’t hurt and so they become a lower priority than, say, medical problems when you really do feel them, so what we try to do is make it as convenient as possible. So we put our locations in big box retail centers that people see every day. That way they know where to go if they decide they want to. We market heavily with traditional consumer marketing, so again, two retail components of the business in order to try to activate people into care. Then the other big retail component we have is the consumer financing, because dentistry, when it comes to the insurance component, isn’t designed to cover all the care. It’s designed to cover really a small portion of it, maybe 50 percent at most, which means people have to go to out of pocket quite a bit in order to get the care they need. And there’s a lot of options, cosmetic options, that are much more aesthetic than they had been in past years. But again, they required people to go out of pocket. So the third element of the consumer piece, if you will, or the retail piece, is that financing. Then once you get inside the four walls of the office it’s a healthcare service business. And so the answer tends to be retailer, healthcare, yes.

Nancy Ellen Dodd: So that’s great. It’s multifaceted service for patients’ needs. You joined Bright Now as a member of the founding team, serving as CFO from May, 1998 through March, 2000, correct?

Steve Bilt: Yes.

Nancy Ellen Dodd: How did the formation of the founding team come about? Did you follow a traditional business model or was this a new concept?
Steve Bilt: Well the formation of the original team is kind of a story that goes back. It’s probably worthwhile for people to reflect on a little bit in so far as that it’s a lesson in you pave your road based on the people you encounter along the way. So in my story I started my career at Ernst & Young in the accounting and auditing side and providing certain consulting services. I had, relative to no-- for no worthy to my story I would say, is I had three clients that had come into the picture over time, South Coast Rehab, Vivra [ph?] and Regency Health Services. It turns out that I went to become CFO of South Coast Rehab. Vivra, [ph?] who was one of my clients, invested in South Coast Rehab. We ultimately sold South Coast Rehab to Regency. I went to work for Vivra, [ph?] which is a New York Exchange Company, as their VP of Finance. When Vivra [ph?] sold it was close to the same time that Regency sold, and the CEO of Regency called me and said would you be interested-- I’m sorry, the CEO of Regency called me and said, “Would you be interested in joining me and starting this business.” So it really is a web, in a happy way, a web of these relationships that led me through the-- a few businesses and into Bright Now.

Nancy Ellen Dodd: So what created your transitioning to President, CEO in 2000?

Steve Bilt: Well we had started the company in May of ’98. We actually started trying to pull together some acquisitions in late ’97, closed on the first ones in May of ’98. Again, I was in the CFO role. And the company was, because the business model was relatively new and very different and operationally intensive compared to, say, some of the healthcare service businesses, we really didn’t estimate properly what it would take to get it moving in the right direction. That led to some unhappiness, if you will, in the investor base early on, and some of that turmoil just created a situation where it really wasn’t the right business in terms of the operational intensity or, quite frankly, the growth trajectory. The founding CEO had been CEO of a very large company, a $700 millionish company. We were, at the time, a $45, $50 million company and there was so much to do internally over the next three or four years that we really weren’t sized properly for his skill set. And he actually went on and became CEO of another billion dollar company shortly after leaving. So it was really a situation where the work that needed to be done and the heavy lifting that needed to be done for a company that really was effectively insolvent at the time, the work that had to be done was sort of long and slow and much more suited to me at the age of, say, 33, working through that, than it was for him at the point of his career he was in. So that was really where we just said this probably makes more sense for me.

Nancy Ellen Dodd: And it turned out very well for you and for the company. Bright Now has now handled several acquisitions of companies such as Monarch Dental, Castle Dental, and Newport Dental. What are some of the problems you faced with these acquisitions and how did you overcome them?

Steve Bilt: Well it’s interesting. There’s sort of two ways to answer that. There’s problems when it comes to the transaction itself, and a couple of those were very complex transactions. Monarch was an
underperforming public company. Split adjusted it traded as high as $145 a share. When we started looking at it, it was trading around $2.50 a share. I illustrate that only to say that you don’t go from where they were to where they—where we found them without having a whole lot of problems and a whole lot of unhappiness in your bank groups, in your investor base, in your employee base and so on and so on up and down the list. So that was a very troubled company when we came across it. And the transaction was very complicated because of the number of constituents at the table, all with really very different goals. So that was a very complex, probably 15 plus month deal process, which is very long going after a public company. Castle was similar in so far that it was a public company that had traded way down, not as dramatically as Monarch but way down. They had fortunately been through a restructuring before we got there so it was a little bit—some of the stuff was behind them but it’s still a very complex transaction. And anytime you’re going to try to acquire a public company there’s a lot of work and a long deal process that’s very expensive. So the deals themselves were complicated for all those reasons. Then, you know, after you win the deal then you have to kind of look in the mirror and say now what did I win and am I happy about that. And again, when a company goes through what these companies went through, there’s a lot of internal turmoil, you know. Assets had been sold off, people had left, the ones that stayed felt really, you know, somewhat exhausted by the process. So there’s this whole reenergizing situation. There’s a whole corporate psychology you have to wrestle with. So one of the big challenges is coming in and saying we’ve had a run of three or four very successful years. You’ve had a similar run of three or four very unsuccessful years. That doesn’t make us any smarter than you, really. It means our balance sheet might’ve been better positioned, right. It means we might’ve been in markets that had more wind at our back. It might be that it was just our time, right, ‘cause the three or four years before we were successful we were unsuccessful. So one of the things I did right after we bought Monarch was, and this is always a tightrope walk, we were trying to get people together so fast and the deal kept sliding, sliding, sliding that I literally ended up with that deal closing on Friday, where I was up in San Francisco at our attorney’s offices, closing the deal, flew home Saturday morning, flew out Saturday evening, and Sunday morning in Dallas had a meeting with the entire management team, both from Bright Now and Monarch. And so it was very close. I almost missed it. And one of the things I said in the introduction is, I got up and I asked my team from Southern California, from our Southern California market, to stand up. And I said, “I want to introduce you guys to this team from Southern California. And I want you to know that Southern California has grown 70 percent in earnings last year. And it grew 50 the year before that.” And so it started to be kind of this thing where it felt like I was leading them down a path of saying look how smart my people are compared to your people. And then I said, “Now let me tell you where Southern California was the two years prior to that.” And I said, “So these same really, really smart people now were really, really stupid people three years ago, if you use that as your measure.” And I said, “That’s how I view Monarch. You guys have been through a lot. You have a wonderful history. You have a lot of success behind you. There’s a lot of great people, ‘cause I’ve met most of you, and you went through a run similar to what these guys went through. The difference was that your balance sheet, because you’re already public and there’s a whole bunch of acquisitions that you’d done, wasn’t able to withstand it. That has nothing to do with your ability as operators.” So that was really important, I think, to getting people to,
say, level set, you know. We’re all the same here. And now we’re one company, let’s move forward. So that was very important and I think, you know, quite honestly, we did that really well in the Monarch acquisition. We didn’t necessarily do that as well in the Castle acquisition and we paid for it a little bit. Now I think we’re working our way through that and we have, but there was a period where we paid for that. We didn’t– we did it well the first time. We did it so well that I think we kind of, in some ways, sadly assumed that we were good at it and didn’t put quite the-- enough effort into it and paid for it.

Nancy Ellen Dodd: But lessons learned and then…

Steve Bilt: Yeah, I mean nothing catastrophic but, you know, you can look back and say wow, if we would’ve given that the same level of attention that we gave it when we did it with Monarch. Now part of the issue’s Monarch was three times our size. If you’re a little minnow trying to swallow a whale, you know, it’s hard not to be daunted by acquiring a company three times your size. But at that point that took us up, you know, to a few hundred offices, 240, 250 offices, whatever the number was. And so then when we went and bought another 70, 75 it didn’t feel as daunting. So, you know, I think we, again, and we had done it once before, so I think we started to get comfortable that we were good at it. And, you know, in life you have to be very careful when you convince yourself you’re good at something ‘cause it’s a process to stay good.

Nancy Ellen Dodd: When you acquire these companies, how do you handle the financing for that? You grew pretty quickly.

Steve Bilt: Well we’ve been fortunate in so far as that our relationships with our financing sources have been good. And again, this kind of goes back to my initial answer of how did you end up at Bright Now, you know. Most of business is relationship driven and we were fortunate that the bank that funded us in 1998 and the private equity firm that funded us in 1998 continued to re-up with us all the way through the Castle transactions. So originally our bank had lent us, I think the number was $17 and a half million, you know, eventually they ended up lending us-- actually they took us all the way through even a 2005 transaction and went from loaning us $17 and a half million, at one point in ’98, all the way up over $200 million of loans in 2005. So that’s a pretty big growth with them. Our private equity firm, the lead private equity firm, had originally invested somewhere around $10 million with us and followed that with $30 and then followed that with $25 more. So they kept re-upping with us as we were growing. And then we had some new-- we did bring in some new financing sources in the middle, who were new in 2003 and then stayed with us through ’04, ’05, and to this day, so we’ve done a good job, I think, in maintaining those relationships, in making sure they understand our business in a way that ups and downs don’t scare them. And they understand our management team and our philosophies well enough to say that this is a good place to keep money working and fortunately grew right along with us.
Nancy Ellen Dodd: Does your company do more acquiring of similar companies or does it do more building of new businesses from the ground up?

Steve Bilt: There’s an important concept when you’re in our model, which is a notion of critical mass, and that’s because when you think about the visibility of the brand, you think about the ability to market, you think about our management team in the field, having density’s important. So there’s phases of our growth where acquisitions are very attractive because they give us critical mass. So the Monarch and the Castle transactions gave us critical mass in a number of great markets, which was good. After that, our higher return on capital is generally gonna be by building the location within a market we exist and then staffing it and growing it. Now I think for us to be truly successful long term we want to have both of those arrows in our quiver, if you will. We want to be able to continue to acquire when the pricing’s reasonable and we also want to be able to grow organically through building these locations. One of the things that happens as a by-product of our story getting out there and having some level of success in creating some equity value is that the transaction targets, if you will, or the acquisition targets, get an inflated sense of what the value of the assets might be, which at some point chases you out of the acquisition game. And in my past experience those things will cycle, so when the debt markets are particularly good, and if you can put five, six, seven, eight times leverage on an asset, all of a sudden that’s gonna start trading at, you know, nine, ten, or more times, even from a equity standpoint. And at that point that acquisition starts to become unattractive because the return on capital is so far below what we get when we build them on our own. The difference is when you buy it you can buy them in mass. When you build them that’s a slower process with a higher return. So we want to be able to do both, and we want to be opportunistic around the acquisitions. If we ever are reliant on the acquisitions for our growth then we’re in trouble relative to our return on capital.

Nancy Ellen Dodd: You have affiliate independent dentists that you work with. How does Bright Now work with these?

Steve Bilt: The best way to describe it is probably trying to create a cocoon around those dentists that enables them to focus near exclusively on providing care to patients. So that’s everything from building and maintaining the location, to doing the marketing, to handling the calls through call centers, to doing the billing through central offices so that they don’t get caught up in that, to helping arrange contracting with managed care providers, all the way through having our own internal financing company so that their patients don’t have to delay care because they don’t have the money up front. So it really is trying to create that, again, that cocoon around the dentists so that the dentist and the patient get to spend their time together dealing with the patient’s dental needs, not with the dentist buried in the back room somewhere calling an insurance company trying to get paid or trying to do a contract or, you know,
dealing with a bunch of human resource type issues or marketing issues and things like that. So it really
does enable them to focus on what they do best. It’s really just a specialization model.

**Nancy Ellen Dodd:** It gives the dentist an opportunity to spend the time on additional training or
specialization or areas that they want to improve in.

**Steve Bilt:** I mean obviously I talk to a lot of dentists, as you could imagine, and I haven’t come across a
whole lot of them that tell me they go to-- they went to dental school because they were really interested
in business, right. They went to dental school ‘cause they’re really interested in providing patient care.
And so what we’re really doing is making their career more like what they envision.

**Nancy Ellen Dodd:** What strategy did Bright Now use to add value to the companies it acquired and to
these affiliates?

**Steve Bilt:** You know, it’s interesting. That went in phases so there was-- the initial was getting them
away from, really, some very bad balance sheets that said the companies just couldn’t grow. It involved a
clear approach to managing the businesses that said those of you who in the field-- who are in the field
are meant to be entrepreneurial. You’re meant to run these businesses like they were your own. And it
was very relationship oriented in so far as that we said your number one job is to reach out to the doctors
and develop relationships there to reach out to the office managers and develop relationships there so
that the face of the company that faces towards the patient is happy and well cared for. So that was
really the initial. Then as we moved through that phase we started to really professionalize around things
like development, so how the facilities looked and how the equipment was maintained and all those kind
of things, how we marketed. So we brought in a very professional marketing team to make sure the face
of the company was professional and the face of the company was something that really did say to the
patient you’re gonna be taken care of well here. So we featured these affiliated doctors in those ads so
that people could really see who would be taking care of them. And then it was building up, again, some
call center capabilities so that when someone calls they’re really greeted well and warmly and quickly,
you know, because people are generally procrastinating around dentistry. And I joke inside the company.
I say, “What happens when the phone rings the third time with a patient calling?” And the answer to that
is the patient hangs up. And then the irony of it is you ask yourself what does a patient say when they
hang up, and what they say is wheh, thank goodness. I did my job, you know. ‘Cause people are scared
to go and so they say wow, this is cool. I did it. I made the call. They didn’t answer. That’s their fault,
not mine. Now of course that’s a very self defeating sort of a philosophy but that’s what happens. So we
say let’s build that capability to make sure we have people jumping on those phones, smiling when they
answer it, and they’re ready. And then the billing is very frustrating, you know, so we’ve built up central
capability to handle that. And then finally adding this consumer financing piece so that people really can
get the care they need. So it's been more of an evolution there to bring more tools to the field that are
taking advantage of the scale we're at. So initially it was really trying to localize, localize, localize. Now
the phase has been keep it local but simplify what they have to do locally by leveraging the scale we've
developed.

**Nancy Ellen Dodd:** Your comment's very timely because I just called my dentist's office and whoever
answered the phone ticked me off and I hung up.

**Steve Bilt:** Well there you go, see. I'll tell that to my call center folks.

**Nancy Ellen Dodd:** Can you talk about some of the mistakes that your organization has made along the
way?

**Steve Bilt:** Sure, you know. It's a pretty long list and we try to be self reflective, and I think that's
important 'cause it's the only way to really learn and grow from those things. We-- I alluded to one earlier
which was, you know, with our second big acquisition. We really didn't take the integration as seriously
as we had before. I would say, you know, a couple of the other mistakes-- we've made a few mistakes
that are-- were relatively significant at the time around our approach to sales and marketing, and moved
into an approach that really didn't number one, flex well with the size of the business, and number two,
didn't push, again, those caregivers to the forefront, which really doesn't resonate with either the
caregivers or the ultimate patients. So those were some fairly significant mistakes there. We've
historically underinvested around technology and so we've been rapidly increasing that investment as it
relates to both personnel to support technology and insofar as the actual hardware and software that we
buy. And then finally we have a relatively small company mentality around human resources. So
because we were pushing a lot of authority to the field and really investing heavily in our people who were
in the field, we allowed a great degree of variability in the programs we used out in the field in terms of the
way we handled training and development and those kind of things. And that was very useful at a certain
point in our size because we really did tap into that entrepreneurial spirit. But at some point we de-
levered against that and we weren't taking advantage of what we could in terms of investing to bring
some more uniformity to the development side. And then finally I'd say we weren't doing a great job
harvesting and sharing best practices. And so we had some wonderful, wonderful things going on in the
field but we weren't really doing a great job sharing those. And so we, again, that probably goes into the
human resource piece where we underinvested in some of that codification and training and therefore left
the results to be a little bit more random than we'd probably like. And again, that was a real strength for
us for a while 'cause of this amazing entrepreneurial spirit of people we were tapping into, but it became a
weakness 'cause we weren't taking advantage of the scale. And it's interesting in life, I think, and
certainly in business, your-- going to your strengths is important, but if you overemphasize them you can
create some problems, and likewise if you change course and forget what you’d been previously doing, you also leave behind some really good things. So I offer that to say that as we make these transitions we’re trying our best to get the best of both worlds, if you will, continue to develop that entrepreneurial spirit in our people, and reward that entrepreneurial spirit but also make sure that we’re harvesting, codifying, and replicating a lot of the best practices.

Nancy Ellen Dodd: What opportunities for profit and growth are there within your current organization?

Steve Bilt: Well we see an awful lot. I mean there’s huge opportunities for us to grow organically. Demo [ph?] prices continue to rise, at least consistent with CPI. Historically they’ve been rising faster. The number of new services being introduced into the dental market is large, arguably exponential when you think about the types of veneers, the types of crowns, the orthodontia, so on and so forth. So huge opportunities to expand there in terms of the volume of procedures because of these new things coming on. And then, really, the biggest one is our operatory expansion. When I say operatory expansion it means you have an existing facility that you add new chairs to or we build new facilities, and it’s an underserved population out there. So with something like 55 percent of the population in regular dental care there’s huge opportunity as dental awareness increases. And that’s one of the big and really exciting things for us, is that when I got into dentistry ten years ago it was really kind of like healthcare light. I’d been coming from very high acuity sectors and dentistry was kind of something you do because it’s good to have your teeth looking good and, you know, and a lot of the country’s dental care plan in the long term was, you know, to lose their teeth and get the braces. And I always say those Polident commercials set people back dramatically, when the guy’s taking the bite of the apple and saying thank you Polident. And, you know, I can ask every dentist in the country if they’ve ever done a set of dentures that someone can bite into an apple with and the answer’s no. So, you know, that set people way back. Now implant dentistry’s come a long way and, you know, those things really can be restored to near as good as new. And so that’s really increasing, the, I don’t want to say the efficacy of dentistry, right, ‘cause it really is life changing, and then the understanding, kind of cover of Time magazine sort of stuff, literally, about how your oral health ties into your overall systemic health. And there’s lots of studies linking periodontal disease to heart disease to various forms of cancer, and so those things make dentistry move forward as a real player in the healthcare world, which is very exciting. So all of that’s gonna raise awareness as time goes on. It already is but it continues to raise awareness, which means the sector itself is gonna grow and then we’ll obviously be there to grow with it.

Nancy Ellen Dodd: So have you been able to participate in getting some of this research and knowledge out there to the general public, or is that really not part of what you’re working on?
Steve Bilt: Well that tends to be driven more by the true research institutions and then ultimately through things like the American Dental Association and things like that. We are still a relatively small player in that regard, right, a small part of the sector, and we’re not a research based entity, so we have to be careful about that ‘cause we have opinions on that stuff. We tend to be more of a consumer of that research than generating that research. So we do have a clinical board of directors made up of clinicians inside the company that look at these things. They study them then ultimately advise me on various things that they’d like to see going on within the practice of dentistry which-- or at least various things they’d like to see the provider base made aware of or educated on. So that we do, but again, that’s more of as a consumer than as a generator of that research, just based on the nature of what we do as a company.

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