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GLOBAL MEDICAL IMAGING, LLC

The Charlotte, North Carolina-based Global Medical Imaging, LLC (GMI), has sold and serviced medical ultrasound equipment in the United States and internationally since April 2002. Managing partners Ryan Dienst and Scott Ray used $25,000 to launch their company.[1] Profitable from the start, GMI pulled in about $2.4 million in revenue the first year and $4.5 million in 2003.[2] Within six years, GMI had 64 employees and made $17.8 in annual sales.

The founders had a vision that met a market need, and the company they brought to life grew exponentially. Although they managed to avoid cash-flow problems, finding the right talent for their growing business was not easy. Describing the hurdles they had to overcome, Dienst said, "The number one challenge that we've always had is time and talent. The opportunity has always existed; it's having enough time and talent to be able to pursue it and execute against it."

Like most entrepreneurs, the founders at first kept up a frantic pace that did not allow time for them to effectively manage human resources, until a series of hiring mishaps forced them to take a hard look at the way they expanded their workforce. They realized that having no formal hiring process was a recipe for disaster, so they focused on bringing in the right people and putting them in the right positions. Deist explained:

> If you've got the wrong people in the wrong seats, no amount of rules or processes will get the right behavior. The right people in the right seats will overcome any problems; they'll put in any processes you need, they'll fix any issues you have, because they're the right people. Focusing on that early on can save the organization a lot of money and accelerate growth.

[1] Kathy Brown, "Sonic Was the Tonic For This Fixer-Upper," *Business-North Carolina*, November 1, 2005.
[2] Lindsay LeCorchick, "Imaging the Possibilities," *Greater Charlotte Biz*, December 2004, http://www.greatercharlottebiz.com/article.asp?id=477.

Meeting a Market Need

Ray was born in Boone, North Carolina. As the son of a builder, he grew up "driving nails."[3] While a student at the University of North Carolina (UNC) Chapel Hill, Ray turned building lofts for dorm rooms into a profitable business. After graduating with a Bachelor of Science degree in biomedical engineering, he moved to Charlotte, where he worked selling ultrasound machines for General Electric's medical systems division. In 1995, Ray took a job as general manager for Imaging Associates, a Charlotte vendor of used ultrasound equipment.

During these years, Ray witnessed the consolidation of the ultrasound-manufacturing industry, as large original-equipment manufacturers (OEMs) such as Siemens and Philips bought up the smaller ones. As the OEMs grew larger, however, they became increasingly focused on making a profit and less on performing personalized service. "That's the opportunity that's been created for us," Ray said. "To fill in that vacuum they've created and be more responsive, faster, and more cost competitive. Ultimately, to just provide a higher level of customer support and service that isn't currently part of this industry."[4]

Working with his brother-in-law Dienst, who had an MBA from UNC's Kenan-Flagler Business School, Ray developed a business plan for a company that offered not only the cost-effective solution of selling reconditioned ultrasound equipment but also "maintenance and service contracts, warranties, system upgrades, leasing, and trade-ins."[5]

At the time Ray launched GMI in 2002, Dienst was still a partner at Dienst Custom Homes, but he made the painful decision to leave a successful company that he loved and had helped build. In January 2003, Dienst joined GMI to focus full-time on business management and finance. Ray was the "sales-and-relationship guy," and although he had started GMI, the two men were managing partners and split ownership of the company 50-50.[6]

GMI's Business Model

At first, the two entrepreneurs sold reconditioned ultrasound machines mostly to doctors in private practice and small clinics, but eventually they entered the hospital market. Dienst explained:

> Our first market was the small, private-practice doctor's office, your 9-to-5 cardiologist, ob/gyn, and urologist. It's the doctor who writes his own checks and makes his own money off that equipment. Our other customer was the director of biomedical or clinical engineering in a hospital, who is in charge of finding more

[3] Brown.
[4] LeCorchick.
[5] Brown.
[6] Brown.

cost-effective ways to service and support the ultrasound equipment in the hospital facilities.

A value-added distributor

As the population aged and doctors needed better diagnostic equipment, demand for ultrasounds machines grew; however, purchasing new units that cost between $20,000 and $120,000 was an expensive proposition. The entrepreneurs decided to offer reconditioned machines as an appealing alternative; these machines looked brand new, performed as well as new ones, and had an initial cost of 20% to 50% less than comparable new units. “We’re primarily in the aftermarket, so we’re a value-added distributor,” Dienst said. “About 60% of our products are reconditioned—we do that in-house—and about 40% are new or demo products that we distribute and service. We do not manufacture.”

According to Dienst, GMI’s freedom from manufacturing obligations contributed to its success. “It allows us to be responsive to what the market’s needs are rather than what we are restricted to sell or stock in inventory,” he said, adding that, as a distributor rather than a manufacturer, GMI could “focus on getting our customers the best products for their needs, instead of pushing a product or solution that may not be ideal.”[7]

GMI bought used and off-lease equipment as well as overstocks of new ultrasound-diagnostic equipment. The machines were brought to GMI’s Charlotte warehouse, where in-house technicians inspected and then reconditioned them, so the repainted and repackaged machines looked brand new when they were delivered to customers.

From day one, the entrepreneurs implemented a number of quality-control processes in GMI’s reconditioning facility. “We’ve had a continual process improvement as we’ve gone along,” Dienst said. “We’ve always been focused on checklists and how we run the business, so that if you had problems you could look back and say what happened, why that issue occurred, and modify your checklist to catch it the next time.”

A field-service unit

GMI’s business model kept evolving. Constantly looking for new revenue streams, in 2004, the founders added a service component to their core business in the form of a field-service business unit. GMI’s field-service engineers, with an extensive network of third-party technicians, provided warranty and service-contract support for all systems GMI sold throughout the country.

“Service was an opportunity for us,” Dienst said. “Ultrasound equipment breaks. We’ve got the right technicians, software, and customer service reps to open trouble tickets, manage those calls, get the parts out, and get the customer back up and running.” In addition to

[7] Michelle Said, “Global Medical Imaging,” *24x7*, May 1, 2006.

generating far higher margins than equipment sales, the service contracts helped the company develop long-term relationships with customers.

Further expansion

The company expanded the breadth of its offerings by adding financing solutions with in-house leasing and a Trade-Up program that guaranteed customers cost-effective upgrades. Consistent with their mission to "lower the cost of high quality healthcare,"[8] in 2008, the founders set out to penetrate a new market segment: training. By teaching hospital technicians how to take care of the imaging and ultrasound machines in-house, GMI helped hospitals save 40% to 60% of their maintenance budget.[9]

Business infrastructure

With Ray driving sales, Dienst focused on building a basic business infrastructure that was scalable and capable of providing ongoing support for the growing company, enabling the entrepreneurs to make more effective decisions. "We had the luxury of being able to build processes as we've gone forward," Dienst said. GMI's ultrasound-service business was an area where investing in the right technology to create infrastructure made a big difference.

Dienst said that he "wrote up a scope of what exactly we needed to run that business," and he outsourced writing code to a software company. "Putting that software package in place has had a huge impact on our business," Dienst said. "We've got the right platform now and have the data necessary to make good decisions and run that business. It's doubled our margins, increased our visibility, and cut our time managing service calls by 100%."

Several instances of employee theft early on had forced the entrepreneurs to take a hard look at the way they managed inventory. Dienst thought it was fortunate that "we haven't had anything that was major—any big public issues that compromised our brand." He continued:

> It's better to have those problems when you're a $10-million company than as a $20-million company, just due to the size of the problems. And it gets you focused on putting the right processes and procedures in place to eliminate that early on; it forces you to really improve your cycle counts, and your inventory-flow practices.

Dienst acknowledged that as far as technology and putting the right processes in place, GMI had invested ahead of the growth curve. "We've overinvested, meaning we could have made more money getting to where we are if we hadn't spent as much time and energy on making sure we had the processes to do it right," he said. Reflecting on what he could have done

[8] GMI Web site.
[9] Kaihan Krippendorff, "Save Your Clients Money—What Could Be More Economic?" *Fast Company*, May 28, 2009.

differently; Dienst said that he "could have invested a little more slowly." Nonetheless, Dienst believed that it was money well spent, and that "it will certainly pay off in the long run." He continued:

> We've been business builders rather than just trying to make the maximum amount of money in the shortest amount of time. A lot of our competitors have made a lot more money in the last five years than we have. But we have an incredible brand reputation, an incredible platform, and we have the ability to become a $100 million company.

Growing Pains

From the start, GMI experienced stellar growth. As far as financing was concerned, "We have always done it with our own money and with lines of credit. Pure bank debt," Dienst said. While funding growth did not seem to be a problem, the increasing pace of change forced the entrepreneurs to start learning how to let go and lead, rather than supervise and control. They also realized the importance of delegating to the right people.

Rule of seven

"Businesses grow in sort of a rule of seven," Dienst said. "There's the 1 to 7 employees [stage], the 7 to 49 employees [stage], and then the 50 to 350 level." According to Dienst, because of Ray's talent for driving sales, GMI grew to the stage of seven employees "real quick."

Each stage of business growth had its own unique challenges. At the first stage, communicating with the GMI employees was effortless but as its workforce grew, Dienst understood that the old way of doing things would have to change. He explained:

> You're doing stuff, you go to lunch every day, and you're all on the same page, and everything's easy. After you cross over that seven-person line, it starts to get tough again, because you've got too many people doing too many things to know every detail about everything. So you start building an organizational structure, with people having ownership in parts of the organization they're in charge of.

Delegating responsibility presented new challenges. The employees hired at the first stage of the business were not always equipped to grow with it, often lacking the skills to manage others. Dienst said, "You've got an inflection point at that 7- to 10-person range, where you have to start putting people in charge of parts of the business." He continued:

> Typically then you get your phase-one management team in place over the 10-to-25-employee range. And then things start to grow again, because you're getting

> some synergy, you're gaining some leverage; you're back focused on creating revenue rather than putting out fires and managing the process.

Dienst identified the next inflection point as the 45- to 55-employee range, when the demands of growth outpaced the skills of the phase-one management team. To take the company to the next level, Dienst found it necessary to "reshuffle the deck and bring in new talent." At this point, the employees who were unable to grow with the company or become top performers—the C players—were moved to lower-level positions, where they could be A players. As Dienst said, "They're C players as managers, but they're A players if you can get them back to what they were originally hired to do."

When employee headcount at GMI topped 50, the founders were able to afford a "different level of talent," Dienst said, and he revealed that GMI brought in a professional management team that had the capacity to get the company to the level of 300 employees.

Hiring Under Pressure

At first, during periods of rapid growth, Dienst and Ray were under pressure to fill open positions quickly. "Rather than critically interviewing and making sure we're hiring the right person, [we] often started recruiting bodies," Dienst said. In his experience, this time constraint, combined with ineffective job-screening methods led to frequent hiring mistakes early on. "It's not having a defined hiring process, not doing enough on the profiling standpoint," he said. "And the hiring process was more of a sales job on candidates about how badly we need them rather than us critically analyzing a candidate's abilities for the role."

In 2004, the start-up had an especially strong year, characterized by explosive growth. But Dienst told a cautionary tale. "You bring in 20 people for really fast growth over six months, and if 10 don't make it and you've got to let them go, that's extremely costly." Dienst said that hiring too fast in 2004, resulted in significant turnover at GMI in late 2005 and early 2006.

Top grading

After a few years spent hastily filling positions, Dienst and Ray became more disciplined about the hiring process. "We became aware of the high cost of turnover and poor hiring and what that does to the organization," Dienst said. He dealt with the issue first by attending HR conferences and seminars and reading about the hiring process. Then he read a book by the industrial psychologist and consultant Bradford Smart that made a big impression.[10] The eponymous hiring method Smart had developed was a rigorous executive-grading process that helped CEOs (including GE's Jack Welch) recognize superstars or A players, redirect or retrain B players, and weed out the underachievers or C players who failed to prevent or fix problems.

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[10] Bradford D. Smart, *Topgrading: How Leading Companies Win by Hiring, Coaching, and Keeping the Best People* (New York: HarperCollins, 2005).

According to Smart, a hiring mistake at any level typically costs business owners more than the employee's original salary.

From late 2006 and into 2007, the entrepreneurs implemented significant changes to GMI's hiring and employee-ranking processes. They embraced Smart's rigorous in-depth interviews, meticulous reference checks, and other hiring techniques to identify top players. They also used Smart's following performance-review tools:

> We try to be a lot more structured and strategic in our hiring now, with a good hiring process, and multiple people doing interviews. We do a lot of personality profiling. We are very focused on top grading and force ranking our employees as As, Bs, and Cs, giving them quantifiable performance rankings, and trying to make sure we are getting the bottom 10% and 20% out of our organization and refilling those spots. It was a lot of learning, and just getting really focused on maximizing the effectiveness of our hiring, on-boarding, and training practices, and getting the wrong people out.

The changes to the hiring and employee-ranking processes produced immediate results. After the performers at the bottom of the company were let go, GMI was "much better and much more productive," Dienst said. "I think [it's] the biggest reason why we're, again, growing very quickly and very profitably." He continued:

> We went through a stage where we brought in a lot of folks, and we got the wrong people in the wrong seats. We took too much time leaving the wrong people in the wrong seats, so when we finally got serious about cleaning them out, everything got better and smoother and faster again. You're better off being a 30-person company than a 40-person company if you get the wrong 10 out of there.

In 2008, 18 of the 64 GMI employees worked as revenue-generating sales reps. The general and administrative staff—HR and accounting—numbered 12 employees. Dienst identified the rest as "the technical people in our organization that manage service issues and recondition the equipment and repair broken parts."

Building the Management Team

That the founders took more time to fill positions at the top was reflected in the results. "We've gone a little slower, a bit more focused in hiring those key people, and we've had more turnover in the middle than at the top," Dienst said.

In 2006, the founders brought in a bank consultant with a "big-business background," Dienst said. After looking for someone who could grow with the company, Dienst explained that "we overhired to get the right caliber of person. It's a guy who has exceptional talent, who has the ability to be the general manager of this business with its 100-plus employees."

The role of CFO was usually one of the hardest to fill, but fortunately, Dienst had the skill set, experience, and education to take on that role. From his experience managing a custom-home-building business, he understood the importance of monitoring financial information and managing cash flow. Therefore, from the start he had invested in the technology to develop effective controls and balance at GMI. He explained:

> We have always believed very heavily in software, and we've always been on good business packages. We haven't gone the QuickBooks route or anything like that. You need the data, and you need that core software package to be able to get the information you need out of your business to run it. My previous experience growing a business, my MBA, have helped us always be pretty well off there.

Having tight financial controls was important in any start-up, where cash was a scarce resource, but it was especially critical at GMI where, as Dienst pointed out, "I can't tell you what our sales are going to be like next month. We're a month-to-month transactional business, so we're always impacted by good months and bad months and cash flow."

Building the HR Function

In hindsight, Dienst recognized the importance of finding and cultivating talent from day one. "I think that strategic HR early on is pretty critical," he said. He admitted he should have brought in a "very overqualified HR person earlier to make sure we didn't have the cost of hiring mistakes and lack of on-boarding processes and those kinds of things. The cost of those mistakes is so high that you could afford a rock-star HR manager."

The HR manager, who had been with GMI since its launch in 2002, was unable to grow with the company and was let go in 2007. "Those are painful changes, when you have somebody who was with you from the start," Dienst said. The position was filled with an internal candidate, who also served as controller. "We've identified somebody with the skill set who fit that role well. We hired for personality, ability, and the things we thought we needed rather than hiring a traditional HR person," Dienst said.

Compensation

The two managing partners had always owned 100% of the business. Only one member of GMI's eight-person leadership team had been offered equity, but, in 2008, the founders started looking into creating a stock-option pool for a few long-time employees who had contributed significantly to growing the business. "We need to find ways to retain them above and beyond just compensation," Dienst said.

Senior management's compensation consisted of a base salary, which was set at a market or above-market level, and a bonus tied to performance. To rate his key managers, Dienst used a comprehensive scorecard listing the skills and competencies that were important to the company at each particular stage of growth. "We've had quarterly scorecards, we've had annual scorecards," Dienst said. "Right now, we've got a six-month scorecard, which is about as far as we can accurately forecast and set goals."

GMI's balanced scorecard consisted of a mix of financial and "soft" metrics, such as teamwork that changed as the company grew. Members of the eight-person leadership team had an opportunity to earn a bonus up to 30% of their base salary. Dienst said, "They have a team-based card that's dependent upon the overall performance of the business, so our repair manager is tied to the same metrics as our sales manager." He continued:

> Twenty percent of their 30% bonus is based on the overall performance of the organization. So, hopefully, they're breaking down barriers and working together. They have another 10% balanced scorecard that gets to be tactical within their specific area of impact…That 10% is in their control so that they feel like they've got complete ownership of that 10% of their scorecard.

The Art of Time Management

For Dienst, who was in charge of day-to-day operations from day one, time was a scarce resource. Understandably, he tried to focus on areas that had the greatest impact on the fledgling business. "If you have 20 fires burning, it's knowing which ones are going to impact money, profitability, cash flow, and customer satisfaction and running after those things first," he said. Even though Dienst did not have a "great process," he had a lot of task lists and a set of priorities. "It was walking in and saying, 'Come hail or high water, I'm going to get these three things done today and, hopefully, these other 10 as well,'" he said.

Dienst recalled that in the early stages of building a business, when he was busy putting out fires, he also looked for the "right trends, where you can make a decision that allows you to fix something that would have a big enough impact, so it's worth the effort of fixing it once and for all, with a process change, or people, or whatever else."

Although getting caught up in the minutiae of running a business was easy, Dienst understood the importance of finding the time to step back from the daily grind to look at the big picture. He continued:

> You always try to make sure you're balancing, as best as you can, the amount of time you spend working *in* the business versus working *on* the business. You

> make sure you're getting out of the office, which is the only time to think about working on the business. Because every day you walk through the front door of the office, inevitably, you're going to get pulled into working in the business and not on the business.

As GMI at times grew more than 400%, Dienst, Ray, and the rest of the organization had to constantly reinvent their roles and priorities and readjust their schedules. According to Dienst, "It's been constant improvement, not only on the personal level but on the corporate level and how we restructure roles." He added:

> I got to the point that I couldn't manage a $17 million business the same way I managed the $12 million business. Because of the pace at which we grow, about every six months we're almost a new organization. We have to redo our meeting schedules and our meeting rhythms and how we're communicating to make sure we're always addressing where we are as an organization.

In mid-2008, Dienst again revised his meeting schedule to better fit his role. The first two days of the week were devoted to internal meetings with the heads of those business units that added the most to the company's bottom line at a particular phase of growth. "I spend one hour with no phone, no BlackBerry, no computer, with each of the key managers, focusing on that impactful part of the business," Dienst said. He tried to keep his calendar free on Wednesday, Thursday, and Friday, to have time "to be able to do business development, travel, and meet customers, and do projects, and all of the other things I need to move it forward."

From Doing Everything to Delegating

Early in the game, Dienst and Ray were in total control of GMI, taking care of every detail and managing every area personally. Now, Dienst found it difficult to let go and allow others to take ownership of parts of the business he had nurtured from the start. As he recalled, "When I started with Scott, and there were four of us, you did everything. Literally, touched it, did it, wrote it, and faxed it." Dienst acknowledged that his transition from doing to managing had been painful and that learning to delegate "had been very hard."

"I don't think that learning to delegate is a linear process," Dienst said. He added that, at some point, he realized that there were not enough hours in the day and that he had to delegate. He described the process:

> You delegate, and you find things fall apart, and you reach out and you gather them up and you pull them back in. And then you get to the point of pain again that you know you have to delegate and you push it back out. And it falls apart in different places, and you pull some of it back in. And you just keep figuring out where and how you go through that process by sort of hitting points of complexity in your personal operation, that you have no choice but to delegate. If you

> delegate out 10 major parts of your day, and six people grab that and are doing great, and maybe four of the folks aren't the right people, you grab those four things back, but at least you got rid of six.

The Strategic Coach program

What helped Dienst switch from managing everything to delegating was Strategic Coach, a recognized organizational development program that encouraged successful entrepreneurs to stick to the three or four tasks they performed extremely well and delegate the rest. A crucial component of Strategic Coach was identifying these three or four unique abilities with the help of the Kolbe psychometric-profiling test; once these abilities were identified, entrepreneurs partnered with others with the same abilities.

It took Dienst and Ray two years to identify their skill sets and abilities. As Dienst described it, part of the Strategic Coach program was determining "how to maximize the amount of time you spend on that unique ability, because you're going to amplify your impact on the organization if you do what you do better than anybody else. And everything else that's outside of that unique ability, you've got to get off your plate."

When Dienst and Ray recognized their strengths, it was beneficial to the company. For example, in 2008, after Ray realized that his sales talent did not correlate with being a sales manager, a seasoned national-sales manager, who was a better fit for managing a sales force was brought in. Dienst continued:

> Scott's unique ability is giving customers the confidence to make commitments to do business with us. He needs to be out, talking to customers and closing business, and not managing a sales force. That's not his skill set. Now Scott is out, selling more than he ever has, driving revenue and transactions, and having as much fun as he's ever had.

The national-sales manager built an outside-sales model for GMI. "We now have outside reps, and we're growing that pretty aggressively," Dienst said. With a strong executive team in place, the founders felt comfortable focusing on hiring more revenue producers. Dienst explained:

> We're trying to go from $17 million to $24 million this year, and then our goal is to get to $100 million in three years. I've spent the last six years focusing on building the backend processes, writing the software, getting everything in place so that we've got a scalable platform and the right technical and service people.

The Evolving Leader

One of the key factors in achieving stellar growth had been the two entrepreneurs' ability to continually evolve and change their management styles to meet the needs of the business at different points on the growth curve. In 2008, Dienst said:

> Personal transformation is amazing in the growth of all of these businesses. Today I have to learn to be a true CEO of a 60-person organization. I've had to restructure my meeting schedules, I've had to restructure my management style, I've had to find different ways to impact the organization that are drastically different than two or three years ago.

Dienst's statement that "fast-growing businesses outgrow people quickly," came from his experience and understanding that, just because they had successfully launched a business, entrepreneurs were not immune to becoming irrelevant. Dienst emphasized the importance of constantly having to "read, educate yourself, and reinvent yourself." He explained:

> If you can't keep up with the business, you may not get fired, but you're either going to go out of business because you make some critical mistakes, or you're going to stop growing because the business gets to the point where with your current management style, processes, and leadership abilities—it can't get any bigger. After businesses make it for three or four years, they hit a ceiling. And the ceiling is not the ceiling on the business or the ceiling on the opportunity; it's the ceiling on the entrepreneur as the leader of that business.

Dienst, whose career advice was "work hard every day, and have a quest for knowledge, talk with smart people, read books, listen to CDs, and make sure you are learning every day,"[11] set the bar higher for himself in terms of professional growth. He expected no less from his management team. "If people aren't willing to do the same, if managers that have been with you for two or three years can't keep up, you're going to outgrow them, and they're going to be gone." He continued:

> Business is a game like baseball or golf or anything else. I enjoy being a student of the game, and reading, and learning, and going to conferences, whether it's building custom homes or selling or servicing medical equipment. A good entrepreneur can be a good entrepreneur in any industry because if you're a student of the game, the rules and the lessons are very much the same. And that's the fun part about it.

[11] "Entrepreneurs Talk About What They Do and Why They Do It," *Charlotte Business Journal*, October 6, 2006.

GMI's success proved that, with Dienst running the business as de facto CEO and Ray making the sales, its leaders were "the right people on the bus, in the right seats."[12] Dienst once described his goal as "growing a business to the point it has outgrown me and needs smarter, better leadership to continue to succeed.[13] Considering his passion for learning and continuous improvement, that goal could take longer to achieve.

[12] Jim Collins, *Fast Company*, 51, October 2001.
[13] "Entrepreneurs Talk."