

Module 1 Case Notes - Leadership Transition

The two weeks at Sorriso headquarters were exciting, encouraging, and tiring for Keith North. This was his first time working in the medical/dental industry although he could already see many corollaries to his previous experience in electronics manufacturing and, more recently, software development in business-to-business and direct-to-consumer applications. The team in Chicago had been Midwest friendly although he could tell that this was serious business and there were high expectations for him to make a difference fast.

In his initial meeting with the CEO in Chicago, Keith North was encouraged to use a 30/60/90-day plan to guide his transition. He had started to add notes to a basic outline while in Chicago and Bob Dent had made several suggestions too, that were likely more like expectations than suggestions. Keith liked Bob right away and thought that his straightforward and open style would be a great match for him, and he already felt that he would be able to trust his judgement and advice.

Keith had made several transitions before and was familiar with the 90-day plan. In fact, he had read the book by Michael Watkins, *The First 90 Days: Critical Success Strategies for New Leaders at All Levels*, quite a while ago although he had never actually made a formal transition plan. He knew that for him to be successful he had a lot to learn, a lot to listen to, and the need to gain positive momentum quickly. He had always used a guiding principle of “focus on the first things first,” a simple but effective reminder that an early mentor had shared with him back when he first became a manager.

The planning template that the CEO, Bob, had shared was pretty simple. It had three sections generally divided into a month each; learn, lead, and plan. Bob had said that there wasn't really any magic in the timeframes – that he had modified the terms based on readings he had done and he found it a helpful framework for them to continue to discuss the business and increase the odds of early success. Keith had made just a couple of notes on his template and now, before he got too far in, he wanted to consolidate what he had learned in Chicago and before he took this job. He also wanted to add items that applied to the larger organization and some initial thoughts before he started several weeks of more in-depth discussions and meetings with his four unit leaders and teams.

The first thing that Keith had done was to organize his notes. He had taken several pages and had lots of documents. There were also websites and seemingly endless sources of background. Part of the job would be to continue to mine that data. And while that would be a part of the plan, he also wanted to try to get to a more focused overview, maybe more of a background to the plan before he really started. To do this, he summarized the notes and some observations in a quick overview for himself. He would use that and the plan template to get started. He had also gathered some core documents to use as references while he built the plan.

Core References:

- The most recent corporate strategy, a fairly simple and high level document called the Sorriso Long Range Plan from 2015.
- The LRP's for the three business units; Dental Implants and Instruments, Dental Prosthetics, and Digital Dentistry. The BU/division plans were organized in a "Goal Tree" framework to align plans across the enterprise and cascade actions.
- High level organization chart (CEO and reports).
- An article Bob had shared; an ADA report on the state of the industry.

Background notes

The quick facts:

Sorriso Dental Inc. is a US based company started 37 years ago by two brothers; Bob and Greg Dent. Sorriso has three divisions; Dental Implants and Instruments, Dental Prosthetics, and Digital Dentistry. Sorriso is a global firm with headquarters in Chicago, Illinois. There are approximately 3200 total employees including 125 corporate staff team members. The company has consistently been profitable and revenues for the most recent year were 340 million dollars with an after tax profit of \$38.4 million representing a 6% growth in revenue and a 4% growth in profit. The company is privately held and the CEO is Robert Dent Jr.

The Dental Prosthetics Division was the original business when founded. The first products made by Sorriso were dentures and partial dentures. The division expanded lines over time to include crowns, veneers, bridgework, and custom retainers and other devices for orthodontia applications. The division typically operates as Sorriso Dental Laboratories with a mix of large lot and custom production. US facilities are located in: Raleigh, North Carolina; Coos Bay, Oregon; Memphis, Tennessee; Norwich, Connecticut; Chicago, Illinois; Phoenix, Arizona; and Jacksonville, Florida. International sites include: Glasgow, Scotland; Jerez, Spain; Bremen, Germany; and Seoul, Korea. The total approved head count for the division is 1420 team members. Last year the division contributed 39% of company revenue and 48% of profits. The leader of this division is Dr. Alice Farmer.

The Implant Division started with an acquisition 12 years ago. There is a full range of implant products, primarily made of titanium alloys. The division manufactures in two US locations: Jacksonville, Florida and Phoenix, Arizona. The Phoenix site was the original company location and both facilities are colocated with Sorriso Labs. International manufacturing is in Lyon, France with a new facility in Jinhua, China that produces the company's line of metal hand-held dental instruments. There are 1300 team members in the division. The division contributed 44% of revenues and 52% of profits last year. The division is led by Kahlil Bouche.

The Digital Dental Division is the newest group. It was created from four acquired companies in an effort to expand innovation in emerging digital areas like 3-D printing, imaging, and practice management. The companies were acquired between two to four years ago.

Since the CEO and leadership team wanted to leverage the innovative cultures of the mostly start-up companies, little has been done to fully integrate them and they still operate under original branding. The total number of team members in the division is 355. The four units in the division are: Versa Dent Imaging with locations in San Jose and Irvine California; Mund Tools in Toledo, Ohio; Frankfurt, Germany and Singapore; CustomerFirst in Atlanta Georgia; and Pearson-Hodges with offices in Santa Clara, California and Austin, Texas. Last year the division contributed 17% of revenues and was not profitable.

Recently, the board encouraged senior management to change the leader of the Digital division to someone with more experience in growing software-based companies. The division had been led by a manager who came from the prosthetics business. While the original intent was to use the group to expand innovation and create footholds in new technologies and products/services, there is also an expectation that they quickly become profitable. A major concern within the division is that the corporate overhead added to expenses has exceeded historical margins and they are struggling with trying to focus on growth and cost at the same time.

Notes – CEO, Bob Dent:

- Wants to review progress on the plan about every two weeks.
- His admin (Barb) will set up a weekly touch-base, a 15-minute update and longer call for every two weeks for the next three months.
- Core staff (his direct reports) have a face-to-face in Chicago once a quarter and online/call and meeting if in Chicago each month, added to my calendar.
- Can defer the decision about moving to Chicago until later this year after I've had a chance to determine direction.
- Important to make the effort to set-up time with peer division presidents to earn and build relationships.
- Past President, Charlie Harrison, was a placeholder, did a fine job but did not have a background in software or scaling start-ups/small companies.
- Integration has been limited and a decision needs to be made about further plans/needs.
- He knows it is difficult to grow and reduce cost at the same time, has heard a lot of complaining about the corporate overhead from the group, especially Jim Williams.
- The initial thought was to possibly combine some of these companies and continue to organically grow and possibly make further acquisitions, no real effort has been made but is worth looking at to see if the time is right over the LRP (next one to three years).
- On a high level, there needs to be an agreement and decision about the division's future, could be an innovation incubator and spin into the established BU's, separate companies (like now), or eventually

absorbed by the other BU's. The jury is out and the board and he are open to any of these with a strong enough case.

- There is an opportunity to piggy-back on some of the efforts in the larger divisions, haven't seen any real synergies yet, too siloed.
- The Transition Plan template was created with help from an internal Organization Development Manager in HR, may want to pull her into some of my efforts and leverage her expertise, her name is Nancy Watson.
- There are likely some leadership challenges with my direct reports, some came from the businesses and are struggling with a more "corporate" role, others are really in a deep-end development experience.
- Culture is an important part of this company, we are a team and we treat each other with respect, everyone should have a productive work environment and open communication.
- There was an employee survey done recently which will be useful.
- All of the unit heads have PA's and succession planning data that I should review.
- The CFO does first pass updates on financials, he is a great guy and will do everything to up get me up to speed and support our team.
- As soon as possible wants me to get in front of key clients with appropriate members of my team to start to build relationships.
- Thinks there is a significant savings in optimizing our footprint, we are operating in the legacy locations and systems, haven't done anything really to modify structure or understand infrastructure options.
- The company has invested heavily in training and leadership development, not sure that the Digital division has taken much advantage of that yet.
- The Division goals need revised, it would be good to get more people involved in the process, I think Charlie did them by himself and none are very demanding, low expectations.
- If these businesses are going to be stand-alone they need to realize gross margins that are at least 14% of revenue, including all fixed and variable overhead and the corporate contribution. No one is close yet and he thinks between growth and some logical changes this should not be out of the realm of possibility within the next two to three years.
- He likes to sail, has three grown children, two of which are in managerial positions in the core businesses. Family members are also on the board. There are major investors and the family no longer has a majority of the ownership, "closer to 60/40."
- No immediate plans to IPO or do a major deal like a merger or sale. The board talks about these things and when things are right we will always listen and do what is best for the company.
- Employees all are part of a profit sharing plan based on overall profit and unit profit. It has been a little bit of an issue as the two large units feel like their bonuses are reduced by having to "carry" Digital. At

the same time the Digital folks feel like they work just as hard and the formula penalizes them because of scale and the corporate overhead. We are open to rethinking this if it makes sense, would need to go to the board with a strong proposal and support already lined up.

- Went to University of Illinois in Champaign, my MBA from there stood out, not the only reason I was hired but likes to have the connection, maybe there will be a football outing in the fall or something if they play Northwestern at Soldier Field again.

Notes from the Board meeting and conversations:

- Everyone is here to help, believe in this company and me.
- Retired large dental practice owner from Florida is willing to help me learn the business, Jack Reed.
- Until there is progress in organizing these companies and getting a clear direction, not going to do another deal other than very small for IP and will need a strong business case for that.
- CEO is also Chairman.
- SVP's are officers of the company, VPs are not.
- Board meets quarterly and rotates locations; usually at a company facility if possible.
- Board terms are five years and are renewable.
- Jack reed is an old friend of Jim Williams in the division, says he is "one of the best" and they golf together regularly.
- Dr. Farmer was closely listened to, lots of respect from the board and CEO especially the long-tenured and family members.
- Kahlil Bouche seemed a little guarded with input, did not take the lead in much of the conversation.
- Great interest in global growth, concern about the new insurance in the US and impact on US revenue and profit.
- Interest in taking advantage of the new US health care rules that have massively expanded juvenile insurance, want to help practices leverage this market and get new targeted products in the pipeline.
- Concerns that implants will be further commoditized as manufacturing grows in Asia.

Notes – Dental Prosthetics President, Dr. Alice Farmer:

- Been with the company for 21 years.
- Was a former faculty member in a dental school, started at Sorriso in R&D/Product Development, still active in "the science of this stuff."
- Happy to have one-on-ones and anything she can do to help.

- Concerned about Jamie Wills who leads one of the units, was her sales star and wants her to be successful, she was brought into a mess and needs my help.
- There are natural synergies with every one of the units in Digital and the core businesses, she is open to exploring any type of partnerships, shared goals/projects, or internal joint ventures.
- Told me I should go to the Global Leader Program as soon as possible, it's a couple of weeks but well worth the effort to get to know the business and make connections. It is also a lot of fun and there is always cultural and team efforts that people just love. Jamie can tell me more about her experience.
- Her goal is to have an open and honest dialog, that isn't always the case with people but that is her approach and it has worked for her as a leader.

Notes – Dental Implants and Instruments President, Kahlil Bouche:

- Been with Sorriso for 12 years, was part of the implant group before it was acquired by Sorriso.
- It seems like it took a long time to integrate so not surprised by the challenges in Digital, you get the good and bad of families, people love each other and also put up with poor performance too often if there is a strong relationship. Still it is a great company and the minuses are much less than the positives.
- Originally had offered to make the Digital acquisitions part of his division, could have managed the scope there are lots of synergies especially where related to advanced manufacturing and additive manufacturing techniques. Everything is digital in some ways these days.
- Does see advantages to having some kind of innovation incubator, out there in California somewhere maybe.
- The optimization of infrastructure is a real opportunity company wide, we own too much real estate for a company our size and sometimes our structure is a barrier to efficiency.
- Sees the issue with the corporate contribution, thinks it should be closer to 6% instead of 9%.
- Went to the first Global Leader Program, was really useful then since people from different divisions and regions often didn't even know each other, still can be an issue and there isn't enough movement of high potential leaders around the business.
- Has a mechanical engineering degree from Michigan, said we are lucky to get Lovie Smith as our football coach, likes to tease the folks from U/I about that.
- Happy to help if I'm looking for talent for senior roles.
- Will have me included in schedule for product development updates and pass along some resources to help me get up to speed.

Notes – Former President of Digital Dentistry – Charlie Harrison:

- Happy to have me here, can tell me a lot about the people although doesn't want to bias me too much.
- Was leading the division from the start, was not going to be a long-term role and will be retiring soon, looking forward to winters away from Chicago.
- The original intent was to leverage a culture of entrepreneurship and innovation, as the two business units have grown it is increasingly difficult to stay on the leading edge and we are too prone to try to figure things out ourselves when we don't really have the time.
- The two practice management and supply chain software companies should probably only be one group, it was resisted mostly because the former head of the CustomerFirst unit was strongly supported by the board and had to make a real mess of things before he was replaced. Some of his senior team left with him and it has not completely worked out yet, Jamie can get famous if she fixes this but will need lots of help and high-level cover.
- No one is happy with the corporate "tax" and that has been a real issue with folks, Jim Williams in particular. These folks who have run small businesses and made a ton of money have difficulty in adapting to a larger more organized effort.
- Integration has been limited to email, core HR practices, and finance reporting. There hasn't been much effort at all in structure, locations, assets, or support functions. There is some low hanging fruit here.
- Linda, the admin assistant, is great. She knows everyone and probably also tells everyone. If I'm not going to move to Chicago, I need to take care of her so that she lands in a good spot.
- His role now is really only to tie up loose ends and support me as long as I need, he is thinking he will start to work remotely now and likely will be fully retired in 90 days.

Notes – HR SVP – Linda Chou:

- Been with Sorriso for three years, came from a direct competitor has been building a stronger team and more value. Leadership training has always been strongly supported and while not much has been done with Digital, it is there for the asking. Nancy Watson is a great OD resource, she hired her from her old company to come with her to Sorriso. She can help me with structure, change, and team building.
- My HR rep is Brad Jones, he is in Chicago. Most HR services on the ground are provided by other division HR teams in the area or the legacy HR reps with the two larger units in the division.
- The legacy HR folks have struggled a bit as they were both VPs before and are now manager level, probably the same pay but less authority and flexibility.
- VersaDent and Mund Tools both are really hesitant to ask for help and want to continue to do things their old way, in some cases this is a direct violation of company policy and could be an issue with governance as the practices are sometimes very "back of the napkin."

- Is open to changing structure and approach with HR, the divisions typically fund any embedded staff but maybe I can get something during my “honeymoon period.”
- The CustomerFirst unit has been a real mess ever since they were acquired. The former CEO stayed on and while he had earned a ton of money when we bought his company, there was really less value there than we thought. The due diligence may have been clouded by prior relationships and big pipeline claims that didn’t work out. There are some great people there and we recently got a stellar commercial head, will need to continue to focus on shifting talent.
- It seems like between CustomerFirst and Pearson Hodges there might be one talented team, they are both so small and seem to have a lot of overlap, it is an elephant in the room everyone is aware of and maybe now that there has finally been a change in leadership something will get done.
- Encouraged me to either move to Chicago or at least establish a headquarters at a larger facility, doesn’t see how I will be treated as an equal if I don’t come to Chicago, “you know, out of sight out of mind.”
- The bonus issue is in play, causing a lot of hate and discontent and she will want to work with the direct reports and Bob as soon as possible to fashion a proposal for the board, happy to have my input.

Notes – IT VP – Sharon Miller:

- IT has not been our strong suit, we still have some issues with enterprise efforts and the queue of projects just gets longer and longer, seems like every initiative these days has an IT component.
- Was originally a manager in the implant division responsible for manufacturing, scheduling, and brought in the manufacturing management system still used.
- Has a BS in computer technology and thinks of herself as an “IT geek.”
- The Digital division does not have a dedicated IT resource. Since all of the companies have software experts they have just taken care of what needed to be done as an extra duty. The major integrations were limited to finance reporting, the enterprise email system, and some HR things like performance management. The units still manage their own websites and very little has been done to extend Sorriso branding or standards.
- Travels regularly and is very involved in global standardization of core systems, will need my support to smooth the way for these efforts.
- Chicago is the center of corporate IT, there are also regional groups in Asia and Europe/Middle East, core employee data systems are not on a single platform. There are SAP and Oracle groups and it is getting to be too much of an issue with greater growth outside of the US.

Notes – CFO – Chris Taylor:

- Very friendly and engaging.

- Has been with Sorriso for 18 years, started as an accountant and worked his way up.
- Part of his job is to teach finance as well as manage it, maybe when he retires he can find a role in a business school, teaches part time now in an MBA program.
- The finance function is decentralized for many aspects like expense reporting, and each Unit has a finance lead, mine is Brian Murphy who was the Chief Accountant for Mund Tools in Toledo. Not sure if it the best approach for us and when there is time, open to making changes.
- Happy to support me and the team in any way needed.
- Went through a detailed review of the P&L and balance sheets, Sorriso may have decentralized finance functions but it also has a very sharp pencil at corporate. They are convinced that we are wasting money especially in keeping too many legacy practices and rich practices in sales and maybe even some iffy payment practices with consulting practitioners.
- We will have a compliance audit in the first quarter of next year, still working on action items from last year, mostly in CustomerFirst unit.

Notes – Corporate Marketing VP – TJ Anderson:

- The original intent with the group was to be a little apart, like an innovation laboratory so little has been done to change the identities of the units.
- There was a corporate branding initiative three years ago and there are branding standards, he is a little worried about how they are applied in the division.
- Marketing is really focused on practitioner awareness and advertising spending is mostly with professional press and targeted efforts like convention booths at ADA. Since most of our sales are through distributors there are also lots of distributor efforts and incentives.
- VersDent and Mund also use distributors and some have been converted to long-term Sorriso partners. That has been slow as there are serious concerns about the revenue impact and damage to relationships. Probably the number one thing that he sees as needing taken care of, and also a drain on margins, is neither company has much pricing leverage due to their scale.
- Happy to help and feels like we leave a lot on the table that is just there for the asking.

Notes – Sorriso AsiaPac – Annie Wong:

- Annie is Regional GM with office in Hong Kong.
- She has been with Sorriso for two years, previously was with a medical device company as greater China GM.

- Mostly regional teams are support functions like HR, legal/regulatory, IT, and finance although manufacturing operations are matrixed reports in Asia and there is some coordination, especially new facility development and expansion.
- Works closely with division heads to manage on the ground.
- The only division presence in Asia is a facility in Singapore that does R&D and manufacturing for Mund Tools.
- Asia sales is division based with offices in Tokyo, Seoul, Taipei, and Shanghai. The Digital division does not have any dedicated sales staff in Asia outside a team of two in Singapore with Mund Tools. Mostly sales are some older model high volume lab CNC-based systems.
- The former division head did not visit Asia during his tenure, surprised by the limited interaction.
- Looking forward to working together, global expansion is a major initiative and there are many opportunities in Asia, not just limited to manufacturing, and the markets for related products will boom over the next few decades.
- Seems like immediate opportunities for VersaDent, most of the instrument development now is outsourced to a third party in Taiwan and could easily be brought in-house.

Notes — Sorriso Europe - Deter Witz

- Headquarters is in Frankfurt.
- Mund Tools is in a separate facility nearby, there is regular interaction.
- Europe team is primarily commercial and support functions.
- Sales in Europe are typically through government tenders and sales team represents all Sorriso products including Mund Tools and just recently added VersaDent imaging systems.
- Support functions include HR, finance shares service, IT, and regulatory affairs.
- The region does not have direct or indirect management of manufacturing operations in Europe; those are division efforts, although the support functions do provide core services.
- Sales in Europe are second to US sales, manufacturing capacity is limited as most have shifted to Asia over the past five to six years.
- The market is still catching up with the options provided by technology.
- There is a high level of reimbursement for dental procedures and good demand.
- The Eastern Europe market is very attractive with many private labs and medical tourists. He sees expansion opportunities for more typical US practice models with these private groups along with the traditional large scale government contracts.

- He has been with Sorriso for four years, came from a direct competitor after a restructuring. He likes the company and it has been refreshing to be with an American company that isn't only about money and the cheapest possible costs.

General Observations:

- Need to really listen and hear what people are telling me.
- The organization is slightly paternalistic and relationships count for a great deal.
- Everyone wants me to be successful.
- Part of my job is to be a contributing member of the senior team and not just a fix-it man for the division, there is more opportunity here and I can help.
- No one wants to hear about how it was done somewhere else, need to be careful with those stories.
- Will need to get a new Visa for China.
- Some people seemed to hint that I would be doing a big restructuring right away and cut lots of jobs, there is likely some fear out there.
- Others seemed to be happy that I was hired from the outside as maybe I'll be more objective.
- I probably have to move back to Chicago, maybe a condo in the city.