

# Apollonia Dental Centers

## General Business Overview and Plan of Operation

### **BUSINESS**

#### **Nature of Apollonia and its Affiliated Dental Practices**

Apollonia intends to develop a network of affiliated Dental Centers that operate by license under the “Apollonia Dental Centers” name.

Because Apollonia is intended to be a general stock corporation, it cannot (and should not) be licensed to practice dentistry. Therefore, while it may legally own real estate, equipment, or other tangible dental practice assets, Apollonia cannot own dental records, goodwill, or have the right to manage or direct the professional activities conducted within any Dental Center.

In order to be licensed to use the Apollonia name and other trademark materials, an Affiliated Dental Practice is required to operate their Dental Center(s) in accordance with the Apollonia Operating Model and the Apollonia Budget Plan.

#### **Apollonia Operating Model**

Apollonia’s goal is to consolidate a leadership position in the development and marketing of effective and profitable Dental Practice Support Services to growing single and multi-location dental practices throughout California and the western United States.

Apollonia’s seamlessly integrated web of Dental Practice Support Services are created to enhance and compliment the Apollonia Operating Model, developed by Apollonia to increase productivity and maintain high profitability in the delivery of service oriented general dental care.

The key elements of the Apollonia Operating Model are:

A comprehensive leadership training program geared toward the development of each dental Team Member’s highest career potential. Over 90% of dental practice employees are women, who have been traditionally denied the leadership training that is focused on young men in our educational and business environment. In addition, the intensive educational requirements of a dentist’s education often prevent them from developing business and life experience that might otherwise prepare them for the position of leadership they will assume. Therefore, Apollonia believes that leadership skills must be taught as an integral part of dental practice operations.

Creation of a culture of positive thought and action to allow each Affiliated Practice to learn the skills to stand tall among their peers, fully committed to the greater purpose of

promoting and creating excellence in dental health, while feeling justified in deriving fair and appropriate profit from the valuable contribution they make to their communities.

A comprehensive marketing approach is infused consistently throughout the entire patient-practice relationship that emphasizes customer service, including opportunities for patient-patient interaction, patient-practice co-development, community outreach, convenience of hours and location, anticipatory service development, family participation, health information resources, and brand positioning as a life and health partner rather than a marginalized vendor.

Development of brand identity for Affiliated Practices that emphasizes the SERVICE segment of the market. The brand identity will be reinforced in the facility décor, signage, print, radio, and television advertising, communication skills training; in the facility design, staffing system, scheduling system, administrative systems, and in all other aspects of the Apollonia Operating Model.

Development of facilities that are able to allow cost effective delivery of dental care by maximally utilizing auxiliaries, by ensuring adequate numbers of treatment operatories and comprehensive packages of instruments, supplies, and portable equipment for efficient delivery of a variety of dental care services;

Increasing the scope of services that can be provided in Affiliated Practices by developing collaborative mentorship models whereby Affiliated Dentists can smoothly integrate more specialized procedures like implants, cosmetics, and other high-value services into their professional comfort zone;

Development of patient communications methods so that the dental care recommendations of Affiliated Dentists can be received in an environment that is conducive to trust, rapport, and confidence, thereby allowing the patient to more easily chose the path toward improving levels of dental health while simultaneously improving the business performance and community reputation of the Affiliated Practice;

Development of dental office staff capabilities by recruiting and training excellent employees, by offering enhanced career opportunities, and by encouraging a team approach designed to maximize productivity at minimal overhead expense;

Centralizing management and administrative responsibilities, thus allowing dentists in Affiliated Practices to concentrate on delivering high quality dental care, and thereby increasing productivity at Affiliated Practices;

Development of the productive capacities of Affiliated Practices and their Clinical Staff, by continuing education and training programs that focus on the most efficient means of providing common, high volume dental products and procedures.

Development of oral care and general health Retail Product Centers, in appropriately designed facilities, dispensing a complete line of fluorides and other preventive preparations,

hygiene instruments and supplies, plaque control agents, nutritional supplements, and other products designed to enhance the oral health of Affiliated Practice patients; and

Creating opportunities for dentists in diverse economic and geographic locations to interact with each other, and share common investment and facility development capital for the common betterment of their business, family, and professional lives.

## **The Apollonia Budget Plan**

Under the Apollonia Budget Plan, the professional activities in each Dental Center are managed by a Professional Director. The Professional Director is the “dentist in charge” or the “executive officer” of the Dental Center, and is responsible for the management of patient care and office administration, keeping provider and staff compensation including payroll taxes, laboratory fees, dental and office supplies, utilities and telephone, and all other general office expenses within a budget of 65% of collections. Any surplus within this budget is split 50/50 with the owner of the practice (if the owner is other than the Professional Director).

Under the Apollonia Budget Plan, the owner of the Affiliated Dental Practice is responsible for the payment of rent and advertising expenses within a budget of 15% of practice revenues. Any surplus within this budget is retained by the owner(s), as is 50% of any profit from the Professional Director. Any shortfall in this area or from the Professional Director is accountable to the owner of the Affiliated Dental Practice.

Under the Apollonia Budget Plan, Apollonia in turn provides a comprehensive package of Support Services to the Affiliated Dental Practice to assist them in conducting their dental practice within the Dental Center, in exchange for payment to Apollonia equal to 20% of dental practice collections.

## **Services Provided**

### **Dental Practice Support Services**

#### **“Six Pillars” Professional Development Services**

Apollonia intends to offer ongoing professional development services to Affiliated Practices, including instruction in Apollonia’s “Six Pillars of Successful Dental Practice” continuing education series.

The Six Pillars system consists of a sequential and systematic educational experience for dentists, dental practice owners, and dental practice staff (“Team Members”), in the areas of:

#### Leadership Development

The First Pillar of Successful Dental Practice is Leadership Development – a series of lectures and workshops intended to teach leadership skills to Team Members, including

instruction in goal setting, problem solving, personal life planning, financial planning, career planning, and teamwork. The purpose of these workshops is to instill in Team Members a deeper appreciation for the purpose of their lives, their work, and an understanding of how they can influence their own success and the success of their families, dental practices, and communities.

In addition, the First Pillar will introduce concepts of money, success, competition, and capitalism, as well as self-awareness, physiologic health, transitional vocabulary, and other tools to direct themselves and others on a path to success and fulfillment.

### Marketing

The Second Pillar of Successful Dental Practice is Marketing – a series of lectures and workshops intended to teach Team Members to be comfortable and purposeful in their role as the promoters and champions of dental health in their communities.

First, Team Members are introduced (or reminded) to the purposes of dentistry, i.e. the three purposes of teeth, the four levels of dental health, the four threats to oral health, the ten ways that dentists can help, and the four barriers to oral health along with ways to overcome them.

Next, Team Members are introduced to the concepts of marketing as it applies to dentistry, including demographics, product mix, payor mix, pricing and elasticity, market segment, brand building, risk reversal, customer relationships, and public relations will be addressed. Combined with strong verbal tools, these concepts will leave Team Members fully committed to their role as healthcare resources in their communities.

Quality as a marketing variable will be discussed in relation to the market segments of “Quality”, “Price”, and “Service”. A working definition of quality, and an understanding of what it means to Team Members, the public, and the profession, will be explored for the purpose of seeing how quality assurance programs, continuous quality improvement, and clinical best practices can greatly enhance the effectiveness of traditional marketing and advertising campaigns.

Advertising is an important and poorly understood aspect of dental practice marketing. The concepts of brand, direct response, emotional appeal, and unique selling proposition are combined with concrete examples of dental practice advertising to allow Team Members to better select, craft, produce, and distribute advertising pieces that bring immediate and direct results to their new patient success.

Finally, Team Members will be given internal marketing tools that they can use place their own dental practices on a path to continuous and never ending improvement.

### Patient Communications

The Third Pillar, Patient Communications will take the new patient in the dental practice through the initial telephone contact, registration, interview, examination, consultation, and

case acceptance process with role playing and group participation to create a comforting and receptive experience designed to create acceptance for dental care.

Human behavior and its relationship to buying behavior will be explored, as it will allow tools of influence and rapport building to smooth the friction normally present when a well-intentioned team member tries to “sell” dentistry to a patient who clearly “needs” it.

Based on the concepts of non-confrontational case acceptance, Apollonia focuses on a helpful counseling role for the Team Members, and present a model for improving case acceptance, patient satisfaction, and fulfillment of both personal and professional goals.

### Operational Systems

The Fourth Pillar, Operations Systems will introduce every Team Member to the flow of work and a systematic manner of organization that produces a stress-free and productive workday. Apollonia’s reception, interview, diagnosis and exam, consent, financial arrangements, scheduling, and collection policies and procedures will be presented and reviewed in the context of an integrated system that can double or more the productivity of most dental practices.

In addition, office general operating policies that impact employment and compensation matters will be explained to gain greater understanding of the power of teamwork.

### Clinical Efficiency

The Fifth Pillar, Clinical Efficiency has the potential to make an immediate impact on dental practices. Nothing impacts a dentist’s personal income as much as improvements in clinical efficiency.

Team Members will be introduced to the systematic organization of repetitive procedures, from diagnosis and treatment planning, to bedrock clinical protocols in the foundational procedures of restorative dental practice: endo, crown and bridge, and composite restorations.

Emphasis will be on creating dynamic improvements in clinical efficiency, while improving the predictability of excellent clinical outcomes. Hand-on treatment experiences, formatted in a manner of “Rapid Experience Acquisition” will help solidify the learning process to produce a sense of confidence and well-being while producing excellent dentistry at unimaginable speed.

Although technically more a marketing concern, the introduction of new services to a dental practice is traditionally taught in terms of improving productivity. In this ongoing series of learning experiences, Team Members will be shown how they can integrate expanded services into their general practices, including orthodontics, implants, cosmetics, sedation, molar endo, periodontics, and other “specialty” procedures, all supported by rehearsal and live-patient learning experiences.

## Professional Integration

The Sixth Pillar of Successful Dental Practice is perhaps the most powerful concept of modern dental practice. Due to the rapid development of communication and data processing technologies, it is no longer necessary for any dentist to practice alone.

The phenomenal success of internet-based collaboration, as exemplified by DentalTown.com, has proven that there is a strong desire amongst dentists and other Team Members to interact regularly and frequently with colleagues over a broad geographic area, for the purpose of mutual improvement and support.

The Sixth Pillar workshops and lectures are intended to help affiliated dental Team Members to understand the relationships among themselves as individuals, dental practices, and as integrated businesses.

The financial structures of practice and asset ownership, profit sharing, decisional authority, as well as strategies for integration and separation must be clear to all participants in order to allow them to feel comfortable maintaining an investment in their careers in affiliation with Apollonia.

An integrated system of new associate assimilation and training, expanded autonomy through creation of separate practice facilities when the associate is fully prepared for this role, and of course eventual equity ownership opportunities are all integral to the system of Professional Integration employed and promoted by Apollonia.

In addition, organized collaboration including mentoring, central clinical resourcing and consulting, internet based video and data sharing, real-time consultation, and other important adjunctive technologies assist each participation Affiliate with expanded knowledge resources to allow safer, more effective, and more profitable patient care.

Apollonia believes that its Professional Development Services will allow the Affiliated Practices to be more productive than dental industry averages.

## Operational Management Services

Apollonia will also offer a package of comprehensive management services (“Operational Management Services”) to Affiliated Practices, including training of Team Members in Apollonia’s operational systems.

While related to the “Fourth Pillar” of Operational Systems, Apollonia’s Operational Management system is a hands-on activity that creates and maintains peak performance of the Affiliated Practice through direct training and supervision of the staff.

Where the Six Pillars program is a consultant-type of educational environment, Apollonia's Operational Management Services are a direct implementation type of service.

Operational Management Services are delivered directly to the Affiliated Practices through on-site managers who are selected and trained by Apollonia. In many cases, an existing employee will be designated for training as a manager, or where necessary, Apollonia will select and train an appropriate individual.

Larger practices will have permanent dedicated management personnel, while smaller practices may have periodic visiting managers, as each practice can best sustain and benefit.

Affiliated Practices that utilize Apollonia's Operations Management Services will receive a complete management package including all practice operations from marketing to sales, from scheduling to insurance billing, from accounts receivable and payable, payroll administration and accounting, data reporting, expense management and inventory functions.

A dentist who utilizes Apollonia's Operations Management Services can confidently focus on dentistry full time, secure in the knowledge that the office's operational systems are being handled by the best management team in the business.

Because of professional autonomy concerns, Apollonia will offer advice and support to the dental practice with regard to the selection, hiring, training, compensation, and benefits for all non-professional personnel working within the Affiliated Practices. To the extent that an Affiliated Practice may desire, Apollonia's management team can take a more active role in these matters as well.

Apollonia believes that staffing related concerns are a significant source of stress and inefficiency in many dental practices, and that its staffing and compensation protocols will improve staff performance in its Affiliated Practices, compared with dental industry averages.

Apollonia believes that its Affiliated Practices will greatly benefit from its Management Services, and will outperform dental industry averages as a result.

### **Facilities Development Services**

Apollonia intends to develop a series of dental facilities, either from the purchase and modification of existing practice facilities or *de novo* creation of new facilities for the use of its Affiliated Dental Practices in the conduct of their business ("Facilities Development Services").

Apollonia intends to comprehensively design and equip the interior spaces of these Facilities, incorporating the best of current dental practice efficiency space design concepts, optimal equipment selection and placement, and marketing-oriented decoration themes.

Apollonia believes that by proper selection of the location and character of its Facilities, be they in leased or owned real property, will enhance the performance of Affiliated Practices.

Apollonia believes that the design, equipment selection, and décor of its Facilities will further enhance performance of its Affiliated Practices.

## **Compensation structure**

Apollonia will be compensated for Dental Practice Support Services by the Affiliated Practice on a fee basis, the fee being based upon a percentage of Affiliated Practice collected revenues.

In general, the fees for Dental Practice Support Services will be:

<b>“Six Pillars” Professional Development Services</b>	<b>5%</b>	<b>of collected revenues</b>
<b>Operations Management Services</b>	<b>5%</b>	<b>of collected revenues</b>
<b>Facilities Development Services</b>	<b>10%</b>	<b>of collected revenues</b>

# **DENTAL SERVICES INDUSTRY**

## **General**

### **Size and Growth Rate**

Industry sources have estimated that expenditures for all dental services in the United States were \$70.2 billion in 2003 and growing at a rate of 7% per year. General dentistry is estimated to represent approximately 88% of all dental services performed in the United States.

Apollonia believes several factors are driving the overall industry growth:

First, as the “baby boom” generation ages, the demand for many higher priced dental maintenance products and procedures (such as crowns, bridges, periodontal treatments, root canals, implants, and full or partial dentures) will increase relative to the demand for other more routine, lower priced dental products and procedures (such as routine cleanings and simple fillings).

Second, as the “baby boom” generation ages, the number of people being actively treated for chronic periodontal (gum) disease is expected to increase dramatically, leading to increasing profit centers from periodontal maintenance procedures, such as personalized oral hygiene

instruction programs, more frequent and more complex cleaning procedures, and more frequent and more complex diagnostic procedures, many of which can be efficiently performed by licensed Dental Hygienists (“DHs”) and Registered Dental Assistants (“RDAs”) (together “Clinical Staff”).

Third, the “baby boom” generation is raising their children in an increasingly health conscious environment, where preventive dental care can be effectively marketed to great effect. It is expected that the market for preventive oriented treatment (fluoride supplements, “high tech” oral hygiene products, dental sealants, etc.) will increase dramatically over the next few years, many of which can be provided by Clinical Staff.

Fourth, increased attention to personal oral hygiene has led to an explosion in the number of products offered to consumers for use in oral health maintenance. The sale of such products through dental practices directly to consumers would seem a natural extension of the traditional service products offered by dentists, but the need to collect and account for sales tax on such direct sales places demands on the individual practitioner that exceed their administrative capacities. Apollonia expects that the development of oral hygiene product direct sales through its Retail Product Centers will be an important and growing profit center. Such direct sales can be handled in the Facilities by Apollonia’s administrative staff.

Fifth, increasing attention to dental health and, in particular, to personal appearance has steadily increased the demand for general dentistry services and cosmetic dental products and procedures (such as bonding, orthodontics, veneering and whitening).

Finally, a greater percentage of the population is now covered by private or government funded dental health insurance thereby facilitating increased dental office visits and a greater utilization of general dentistry services.

## **Fragmentation**

In spite of the growing demand for dental services, the United States dental industry is still highly fragmented, consisting of more than 153,000 professionally active dentists working in 127,000 separately owned and operated dental practices with approximately 70% of these practices operated by solo practitioners, and only 3% employing three or more dentists.

Traditionally, dentistry has operated as a professional “cottage” industry, and traditional sole practitioner or small group practice dentists have historically managed all aspects of their dental practices, including administrative, purchasing, accounting and marketing functions. This substantially diverts attention from the dentists’ primary source of revenues, direct patient care.

The size of a typical dental practice is reflective of the lack of professional administration that typifies the sole dental practitioner. According to the American Dental Association, the average dental practice generated revenue of approximately \$360,000 in 1997, with less than 3% of the dental practices generating revenue in excess of \$1.0 million.

## **Market Characteristics**

## **Consumer Behavior and Brand Loyalty**

In general, California consumers change dentists approximately every 3-7 years, typically in relation to a change in residence or employment. Consumers in the dental industry typically do not possess sufficient knowledge to effectively compare pricing amongst dentists in their geographic area, and thus their selection of dentists is not very price sensitive.

Dentists have historically been inattentive to the branding of their services, preferring to blend into the background rather than stand apart from their peers. In most communities, the majority of dentists are all located in corridors heavily populated by their own competitors, and are often distant from home and work for their customers. Their hours of availability are almost always the same as their competitors, and are often reminiscent of the “banker’s hours” of a time long gone by.

Nonetheless, consumers feel a strong need to experience a close brand affinity with their choice of dentists, so much so that while the dentists themselves are ill at ease differentiating themselves, consumers have literally had to invent the brand identity they crave. Fully 88% of surveyed patients claimed that their dentist was “one of the best” and that they would be willing to pay more to maintain their professional relationship!

Nonetheless, dentists are so inattentive to the branding and pricing of their services, that the pricing of dental services often varies very little among traditional dental providers within a particular market.

This presents an opportunity for dentists to leverage a brand-enhanced pricing strategy to improve profit performance, then efficiently use the surplus funds to drive a well-targeted brand-driven marketing effort designed to consolidate market share.

## **Market Segmentation**

There are three distinct market segments developing for the delivery of dental services to consumers, largely organized around the three consumer values of PRICE, QUALITY, and SERVICE.

The PRICE market is primarily driven by need, is highly cost sensitive, is dominated by insurance company reimbursements, and the dominant value received by the consumer is to have the necessary service done by “the cheapest” dentist they can find. This market is the fastest growing market in dentistry, however profit margins are slim and an increasingly competitive market is making success in this sector increasingly problematic. Growth can be rapid if pricing is competitive, through participation in large group benefit programs through major insurance vendors.

The QUALITY segment is driven largely by social concerns, is highly brand sensitive, and is fragmented among those dentists who enjoy the highest reputation sustained by profligate community exposure, and the dominant value received by the consumer is to know they are seeing “the right” dentist that their friends all go to. This market is the most competitive, is generally stagnant and rather small overall, however profit margins can be very large.

Growth is problematic as brand loyalty grows slowly over the years, and brand extension is difficult without severe dilution.

The SERVICE segment is driven largely by lifestyle concerns, is experience sensitive, is the emerging model for successful dental practices today, and the dominant value received by the consumer is that they had their dental services “done right” by a practice that tended to their wants and needs. This market is not particularly competitive, as most traditional dental practices find that customer service is harder to deliver than are the other qualities capable of attracting a dental patient (price or quality), profits are predictable and steady. Growth can be moderate, and the model is readily scalable.

## **Trends**

### **Increasing Management Responsibilities**

Historically, the traditional dental facility was set up simply and inexpensively, paid for quickly, and then virtually left alone for several decades as new equipment and technology was slowly evolving. Modernly, a constant stream of ever newer and very expensive technologies is putting strain on the practitioner struggling to keep up with the capital thirst of a challenging technology budget.

In addition, increased capital needs force dentists to keep an ever larger portion of their personal net worth tied up in the same single enterprise that employs them, thus preventing the diversification that might otherwise protect them from economic ruin in the event of death, disability, or business misfortune. Most dentists simply lack the financial sophistication to effectively manage these risks.

Market-driven pressures by major insurance companies to contain healthcare costs have restricted dentists from easily passing through these increased costs to their patients. Instead, they have tried to increase their productivity and efficiency through utilization of increased numbers of employed auxiliaries. As a result, the average staff size of dental practices has increased during the past two decades, to where over half of practicing dentists employ a staff of between three to six people. Management of increasingly large staff is generally ranked by practicing dentists as the number one stress they encounter in the course of practice.

The regulatory burden on dentists has increased exponentially in the last decade. In addition to the noticeable introduction of gloves and masks, there are new regulations respecting protective uniforms, disinfection and sterilization monitoring, bio-hazardous waste disposal protocols, OSHA safety regulations, mandatory training compliance, waterline contamination, and a host of other governmental regulations that cause increasing stress for practicing dentists.

Legal liabilities are increasing at an alarming rate as well, and not just malpractice liability, but contract liability, medical liability, and a recent explosion in employment liability that all combine to cause additional stress and financial risk for ill-prepared dentists.

## **Demographics of Practicing Dentists**

A significant number of practicing dentists are within 15 years of retirement. During the early 1960's large numbers of dental schools were built to meet a nationwide shortage of dental care manpower. The largest concentration of practicing dentists are nearing the end of their working lives, the majority having older facilities, and little interest in taking on the added burdens of managing younger associates or additional debt for facilities upgrades.

Total first-year enrollment in the nation's dental schools is down from a high of 6,301 in 1978 to 4,255 in 1996, while the population of California and the western United States is booming. Of forty dental schools in 1978, nine have closed their doors, for lack of available funding.

While incoming dental students have traditionally valued "being one's own boss" as one of their most important factors influencing their choice of career, of those dentists in practice four years or less, only 42% are self-employed. When surveyed closer to their graduation date, many of these same students have changed their priority to the preservation of "professional autonomy" over self-employment.

Approximately 42% of the first-year students in dental school in 2000/01 were women, and minorities comprised approximately 38%. The enrollment of women and minorities is expected to increase as dentistry represents an attractive career option for bright young people who may not find the experience or family connections perceived as necessary for success in typical business careers.

In general, these talented but inexperienced young graduates are ill equipped, and justifiably reluctant to undertake the responsibilities of running a professional practice.

## **Emergence of Group Practice Alternatives**

The first large scale attempts at creation of group dental practices began in the 1990's and saw the emergence of consolidators who rolled up existing practices to create enterprises large enough to attract public capital markets.

Ineffective management systems, an undue focus on financial rather than operational concerns, and a general lack of integration of administrative and clinical functions led to a predictable chaos followed by rapid decline.

From the ashes of these early attempts have risen a number of successful, lower profile, multi-location group practices, some of which have shown significant market potential.

Still, most of these group practices are early in their development, and many are disconnected from their peer group as to managerial expertise, market positioning, systems training, and other critical factors that are important to long term success.

The number of well run, well organized, well designed, and well executed multi-location group practices is low, yet is expected to rise. A significant number of successful dental

practices have begun to consider their own expansion as a means of capturing an increased return on the intellectual and operational know-how they have accumulated over their years of trial and error learning.

## **MARKET FOR DENTAL PRACTICE SUPPORT SERVICES**

In summarizing the trends described above, many older practitioners will retire over the next 15 years, and they will be replaced by significantly fewer new graduates who are largely unprepared to accept the responsibilities of managing an increasingly complex, expensive, and intimidating business.

Many of these older practices will be purchased by and rolled into the growing number of multi-location groups, with the new graduates starting business in affiliation with these groups rather than going out on their own.

As the number of practicing dentists decreases, staff size (and management complexity) will increase, and the regulatory environment will become increasingly complex, giving further incentive to established sole practitioners to organize themselves into groups for purposes of developing and implementing more complex models for day-to-day practice operations.

As a result, more established dentists will seek to expand their practices by acquisition and growth, while more younger professionals will seek to affiliate with these established firms to shorten their learning curves and provide security during the early phases of their careers.

These growing groups can be expected to run headlong into the dictum that “growth entails more than just a change in scale”, finding that the systems they employed in a single practice may not longer be adequate in a group environment.

Apollonia’s Dental Practice Support Services will serve as a readily available method for the construction of a group practice structure that provides economic stability. The opportunity for a dental practice to grow should therefore be substantially increased by the Apollonia Dental Practice Support Services.