

Innovative Leadership

An Interview with Stanley M. Bergman,
Chairman and Chief Executive Officer, Henry Schein, Inc.

EDITORS' NOTE Stanley M. Bergman has held his current post since 1989. He serves as a board member or advisor for numerous institutions including New York University College of Dentistry; the University of Pennsylvania School of Dental Medicine; the Columbia University Medical Center; Hebrew University; Tel Aviv University; University of Witwatersrand Fund; World Economic Forum's Healthcare Governors; Business Council for International Understanding;



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and the Metropolitan Opera. Bergman is an honorary member of the American Dental Association. His awards include the Ellis Island Medal of Honor; the CR Magazine Corporate Responsibility Lifetime Achievement Award; a Doctor of Humane Letters from A.T. Still University's Arizona School of Dentistry and Oral Health; and an Honorary Fellowship from King's College London. Bergman is a graduate of the University of Witwatersrand in South Africa and is a NYS Certified Public Accountant.

COMPANY BRIEF Henry Schein, Inc. (henryschein.com) is a Fortune 500 company and the world's largest provider of healthcare products and services to office-based dental, animal health, and medical practitioners, with more than 17,000 employees and operations or affiliations in 27 countries. The company's 2013 sales reached a record \$9.6 billion. Henry Schein has been a Fortune "World's Most Admired Company" for 13 consecutive years and is ranked number one in its industry for social responsibility.

Where is healthcare reform today and have we addressed the key issues?

Healthcare reform is a journey. It began a couple of decades ago with DRGs – what is happening now is not new. It is a manifestation of good public policy, which calls for more wellness, prevention, and the movement of procedures and healthcare from the hospital setting to the alternate care setting.

This began a few decades ago and now we are seeing more of it. The net result is that through the vehicles that are being put in place with the Affordable Care Act, we are providing access to healthcare now to more people. Is it

perfect? Absolutely not. The debate is not about whether we should provide this access, or whether we should focus more on wellness or prevention. The debate is who pays for healthcare and how it should be administered. This will go on for years, and it is not going to be perfect – it is going to take several decades to work through. The net result is that we are already seeing a reduction in healthcare costs and we will see more of that. There will be more people over the next few years

accessing a primary care physician and more procedures moving from the hospital to the alternate care side with more home care.

What role will the hospital play in the future?

The hospital as a stand-alone institution will not exist going forward; already, very few of them are stand-alone institutions. Today, they are part of integrated delivery networks. Some are extremely broad. North Shore-LIJ, for instance, is covering the whole spectrum of healthcare today, and we can expect that to advance.

To look at a hospital in isolation is not consistent with the Affordable Care Act nor with the philosophy around public health policy that this country has been pursuing for years. Hospitals will be there, but more procedures will take place outside of the hospital, in facilities that will often be owned by the healthcare delivery networks; more activity will take place in the home; and insurance companies and delivery networks will merge over time, so we will see single entities that cover the whole spectrum of healthcare.

Eventually, there will be increased focus on non-communicable diseases – the whole idea of wellness and going to the doctor's office to prevent you from getting sick rather than going to the emergency room when you are already sick.

This is a holistic approach and the hospital will be a player in a continuum of care.

Is the dialogue on prevention that needs to happen taking place and who should drive that dialogue?

The dialogue is happening and the payers are driving it – insurance carriers and everyone else who pays for healthcare. Henry Schein, for example, has increased the number of its wellness programs, which we began a decade and

a half ago, as a way to improve the health of our team members while also containing cost.

We want to keep healthcare costs down. We are moving from a "sick care system" to a "healthcare system." We are moving from a brick-and-mortar healthcare delivery system to an environment of computers and monitoring devices that can keep track of the patient's vital signs during the day – all of this is very important in the reshaping of healthcare. We are in a digital age, and healthcare is going to move into the digital age with a focus on prevention and wellness rather than procedures that are very expensive.

How critical have the investments in technology been and is technology a key differentiator?

Yes, it is by far the most important variable in the equation of services that we provide.

We are focused on the physician office today on the alternate care side – we are not in the hospital business. We sold that business a decade and a half ago. Today, we are in the business of helping practitioners operate a more effective practice so they can provide more quality care.

Our customers need technology to become more efficient and successful, and we provide that technology, such as software for managing a practice or electronic medical records. Healthcare practitioners rely on us to help them make the technology transition to digital so they can focus on the patient. As customers increasingly rely on us to help meet their technology needs, they have more time to do the work they are experts at – caring for patients.

Does the public understand the importance of the correlation between good oral care and good healthcare?

Not nearly as much as it should, but we are working to change that. There is a body of work that has come out over the past decade or so showing a high correlation between good oral care and good overall health in general. Smart insurance providers understand this. They understand that oral disease prevention will reduce healthcare costs. If you are in business, it results in a better workforce, and oral care is a critical part of that.

Is it challenging at a company of your size and scale to drive a culture of innovation?

We are a company that is highly motivated – we motivate our people and everyone

is engaged. We subscribe to the notion of entrepreneurship in a large company, or what we call “intrapreneurship.” We have taken our \$10-billion company and broken it down into something like 450 entities with people having ownership in those entities. The key driver is to keep innovation going, and we do that by treating our team like partners making innovative decisions all day long. We all sometimes make bad decisions but we do not mourn those – we want to learn from them. So we encourage people to experiment and to take on new ideas.

Innovative leadership is about bringing people together to achieve a common purpose. Our best leaders are those who can get everyone engaged – there is no room for the big boss any longer.

This is all part of keeping our innovation culture going. It is not easy, because innovation is taking place at a rapid pace, and it is occurring in places that are not customarily where you find innovation in healthcare. It is happening in all sorts of places.

Do you anticipate growth throughout the various segments of Henry Schein?

We are in three business segments: we are the largest provider of dental products in the world by two or more times; we are the world’s largest distributor of veterinary products, primarily focused on the office-based, companion-animal veterinarian and those who take care of equine; and we are also the fastest growing and number-two player in the U.S. medical office market, providing products to physicians at locations outside of the hospital.

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Each one of those areas is in a very exciting field: Dental, because of the growing understanding of the importance of oral care; Medical, because of the transformation in medicine

delivery; and Animal Health, because of the growing middle class around the world who increasingly own and care for pets.

Is there coordination among those three segments or do they run somewhat independently?

What is common among all of our businesses is that we are focused on the small/medium enterprise – the SME – which is the bulk of the delivery-of-care segment. Many of these small enterprises today are owned by common management, so you may have one management company that owns multiple locations. But all of these businesses have in common the way they approach healthcare, and that is through small enterprises that are in the community. This is the biggest area of commonality, and the commonality may range from computers to financing a practice to practice transition – there is a lot of practice overlap, and of course our infrastructure services all of these businesses. We have common warehouses and we have a common software business that serves all three sectors, and we also have a financial services business that provides financing for all of these businesses.

So there is a lot of commonality but there also is a huge amount of specialty among the business units.

Will much of the growth come about internationally or from the U.S.?

The U.S. economy has entered a positive arena. There is growth, and Henry Schein is growing at probably two times GDP.

But the real opportunity for growth will come from abroad. In Europe, there are some good opportunities for us. But the developing world is very exciting. We are on the ground in China and Thailand, and we recently opened in Brazil and South Africa. We also plan to expand our presence in Asia over the next few years with the understanding that the importance of oral care and the interest in pets is quite remarkable in countries such as China, for example.

In markets like Brazil, are you able to find the level of talent that you need?

Yes – there is a lot of talent all around the world.

We look for partners, and in Brazil we found a terrific one. It is the first national direct-marketing dental-product company, and the only one of importance in Brazil, and we do very well with them. They are quite talented.

We are helping them in securing more product selection, and they are good at e-marketing, so we have no problem in that market.

In South Africa, we hired somebody out of business school six years ago, moved him around the world, and he advanced his knowledge. He has now gone back to be our co-managing director in South Africa, working with the management there, and that is going well.

In China, we started from scratch five years ago with a wonderful group of Chinese nationals, although we have had several of our American and Australian colleagues flying in and out over the past few years.

We have also now joint-ventured with a number of local Chinese dental companies.

They understand the local environment and we understand dentistry and dental products.

Each of these markets has unique needs, but in combination with local entrepreneurs and Henry Schein, we believe that we can develop strong businesses.

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How critical is it that your diverse client base is mirrored within the workforce?

In the year 2040, it is estimated that the majority of Americans will trace their roots to the developing world, so multiculturalism and understanding different cultures and languages will be very important. Indeed, this is a global trend. In that context, we are doing everything we can do to diversify our workforce. No one finds this easy. We work with diverse and multicultural professional associations. For example, we are very active with the National Dental Association, the Hispanic Dental Association, the Indian Dental Association, as well as others.

What we do know is that healthcare providers – our customers – are not as diverse as the population, but will have to become more diverse over time.

How critical is corporate responsibility in the company for engaging employees?

At Henry Schein, we have five constituencies that make up the Henry Schein mosaic of success: our suppliers; our customers; our team; our investors; and commitment to society in general. Through our work to enhance access to healthcare for the underserved through Henry Schein Cares, we create long-term economic value, provide a pathway for the participation of our constituents, and generate wider benefits for society. I believe all four of the other constituencies appreciate our commitment to social responsibility because we have proven that one can do well by doing good. ●