Practice Management

When is the right time to take a risk?

Introduction

Every dentist’s career is marked by choices. Some decisions are not only career-defining, they could make or break the doctor financially. These decisions include opening a practice, buying a practice, expanding an office, purchasing expensive equipment, or joining insurance plans, to name a few. The doctor rightfully asks himself or herself, “Should I take this risk?” Do the benefits justify the risks? The fact is, success always involves risk. As the old saying goes, nothing ventured, nothing gained. For dentists who want to increase profitability and reach their potential, mastering the art of timing and weighing risks is critical.

To gamble or not—risk takers versus averse to risk

Most dentists are by definition entrepeneurs because they regularly open or purchase dental practices. The question of which risks should be taken is one that every dentist faces. Whether a practice develops modestly or grows into the doctor’s vision hinges more on the level of risk a doctor is willing to take, rather than luck or experience. Without question, dentists have varying comfort levels—ranging from those who avoid all risks to those who are risk takers by nature.

Taking risks often sounds glamorous when we watch television interviews of billionaires—individuals who may have bankrupted one or two companies and then hit it big. However, this is a dangerous strategy for a dentist. Engaging in extremely high risks can create a practice with spiraling costs and no way to capitalise on the investment. One example would be engaging in a group practice with more than 50 per cent insurance-based, who makes the decision to become a purely cosmetic dentist. While some dentists have done this successfully, usually it’s an ill-advised, impulsive move.

Conversely, being risk-averse can be extremely limiting. In my 25 years as CEO of Levin Group, I have frequently found that dentists who are risk-averse have practices performing below their expectations. Being risk-averse may sound like a smart, conservative move until one realises that it keeps the practice from reaching its potential. Too many doctors operate day-to-day on a risk-averse basis, without investment of growth. This tendency can significantly lower the doctor’s satisfaction, along with his or her lifetime financial potential.

The risk assessment scale

To help dentists make the right decisions, I recommend dentists use a risk assessment scale—similar to one we developed for Levin Group’s Life Plan course. The scale demonstrates how at different life stages, in various financial situations, your level of risk varies. These major risk factors are highlighted:

- Age
- Financial position
- Health
- Family
- Social status

As these factors change over the course of your lifetime, so will your level of acceptable risk. What many doctors fail to realise is that, as they age, their position relative to risk changes, precisely because of how the major risk factors change over time.

For example, imagine a 20-year-old single dentist with moderate debt is making a decision about purchasing a practice. At this stage, the dentist can afford a higher level of risk given that he has very little to lose. Imagine five years later when this dentist is married, has two children, and a mortgage. This dentist is contemplating spending $700,000 to purchase a practice in a somewhat declining neighborhood—a problem which he believes he can overcome. Now this dentist is in a position of having much more to lose by making the wrong decision.

Levin Group has found it helpful when evaluating the wisdom of particular decisions, to analyze the level of risk:

- No risk means that you have virtually no chance of a failure. One example is leasing an apartment versus purchasing a condominium or home. By leasing there is virtually no risk as long as rent is paid. Conversely, owning a home could be perilous if the mortgage payments balloon at a certain point, making it very difficult to maintain mortgage payments.
- Low risk comes with situations that will most likely work out well. For example, buying a partnership in a successful practice where you know the doctor, team and patients generally has low risk. The odds are definitely on your side in this scenario.
- Medium risk raises the level of uncertainty about the decision’s final result. This could include decisions to purchase expensive technology for the practice, move to a larger home with a higher mortgage, build a new office, or invest in a more aggressive stock portfolio.
- High risk comes with decisions where winning could bring significant gain, but losing brings with it a high price. High-risk investing in the futures or commodities market falls in this category, along with being involved in an activity that could damage your reputation in the community.

Evaluating your level of risk

Levin Group consultants recommend that doctors examine each life event relative to the risk levels and evaluate which level is acceptable at this stage of their lives. We encourage dentists to begin their careers operating in the no-risk and low-risk zones. The main focus should be on acquiring a practice or partnership, building income, security and not wealth. Other parts of the dentist’s life including family, community and friends, will also be developing at this time.

Timing and calculated risks

At the point when dentists begin to accumulate increased financial resources, draw on the advice of trusted advisors and have built family stability, the picture changes as to what level of risk is prudent. Once these elements are in place, then using some part of your accumulated wealth in medium or higher risk endeavors can be done more safely. The idea is to evaluate how much of a cushion your current life situation provides.

Conclusion

Every dentist would benefit from using the risk assessment scale to evaluate decisions. By analysing where a potential move falls on the scale and factoring in financial position, age, family, health and social status, a larger perspective view will emerge.

Too many dentists miss opportunities due to a failure to take risks during their careers. Doctors who manage their practices by remaining strictly in the no-risk or low-risk zones often think they have their true potential. The risk assessment scale can be an extremely powerful tool in determining the proper timing for a major decision. By using this scale, doctors can determine the time to select between medium to high level risks and have a better chance of making intelligent decisions.

About the author

Dr Roger P Levin is founder and chief executive officer of Levin Group, Inc., a leading dental practice management consulting firm that provides a comprehensive suite of lifetime services to its clients and partners. Since 1985, Levin Group has helped thousands of general dentists and specialists increase their satisfaction with practicing dentistry. Levin Group may be reached at (888) 975-0000 and customerservice@levingroup.com.