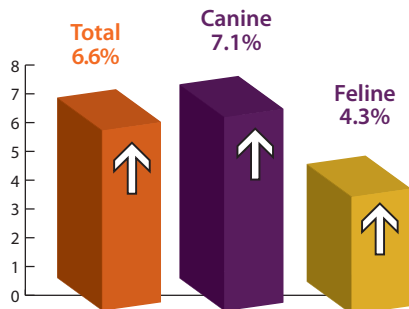


The Insider's Insight Benchmark Report is published by the Veterinary Hospital Managers Association (VHMA) on a monthly basis. The report tracks several key economic indicators to determine how VHMA member practices are performing, as well as results from VHMA surveys on issues impacting the profession. There are about 625 VHMA member practices who regularly contribute key economic indicator data. Data is representative of companion animal practices only.

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January, 2020 vs. January, 2019

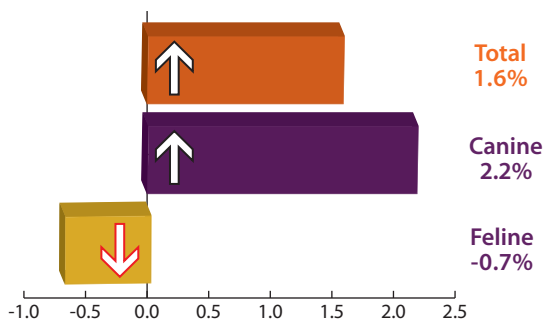
Revenue Growth January, 2020 compared to January 2019



Revenue Growth

Companion animal practice revenue for the 625 VHMA practices included in this month's study grew 6.6% from January, 2019 to January, 2020. There were the same number of workdays (26) in January of 2019 and 2020. ("Workdays" are defined as Mon-Sat less standard holidays. Holidays for January included New Year's Day.) Canine revenue growth was 7.1% and feline revenue growth was 4.3%. 2020 is starting out strongly with this January growth of 6.6% clearly higher than total 2019 growth of 4.2%. The growth in these practices also continues to be stronger than the overall growth seen in the U.S. economy; the real U.S. GDP growth was 3.1% for the first quarter of 2020, 2.0% in the second quarter and 2.1% in the third and fourth quarters according to the Bureau of Economic Analysis. (Note that the fourth quarter figure is an initial estimate.)

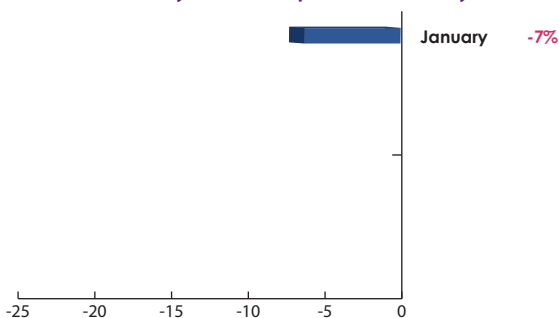
Patient Visits January, 2020 compared to January, 2019



Patient Visits

Total unique patient visits for the same period, January, 2020 compared to January, 2019 actually grew by 1.6% with canine visits up by 2.2% offset by a decline in feline visits of 0.7%. As noted above, January of 2020 and 2019 had the same number of workdays. 2020 is starting out stronger for both revenue and visit numbers compared to 2019—January, 2019 visit growth was 1.3% and visits for all of 2019 declined by 0.7%. (Note that the term "visits" is defined as unique purchases of either products or services for an individual pet.)

New Client Growth January, 2020 compared to January, 2019



New Client Growth

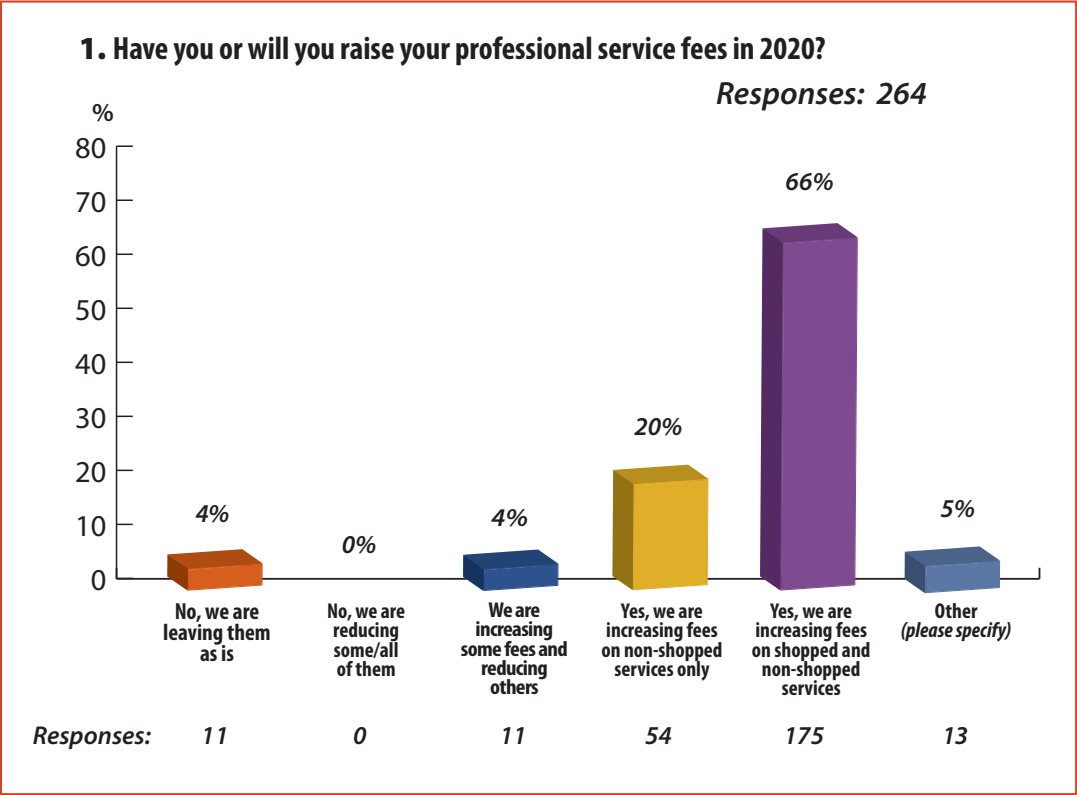
New client numbers in January, 2020 compared to January, 2019 continue to decline, this month by 8%. The January, 2019 decline was 9% and the total 2019 decline was 11.9%. This continues to be a discouraging trend as these numbers have declined almost every month of the last four years.

Remember that the above figures represent averages across all the practices in the study; in order to understand what is going on in YOUR practice, you need to look not only at what your revenue growth was during these months (and going forward) but also at the drivers of growth in YOUR practice such as changes in invoices, visits, ATC, fee increases, new clients and client retention. This will give you the information to make intelligent decisions about where to focus your time and efforts to increase growth.

Fee Changes in 2020

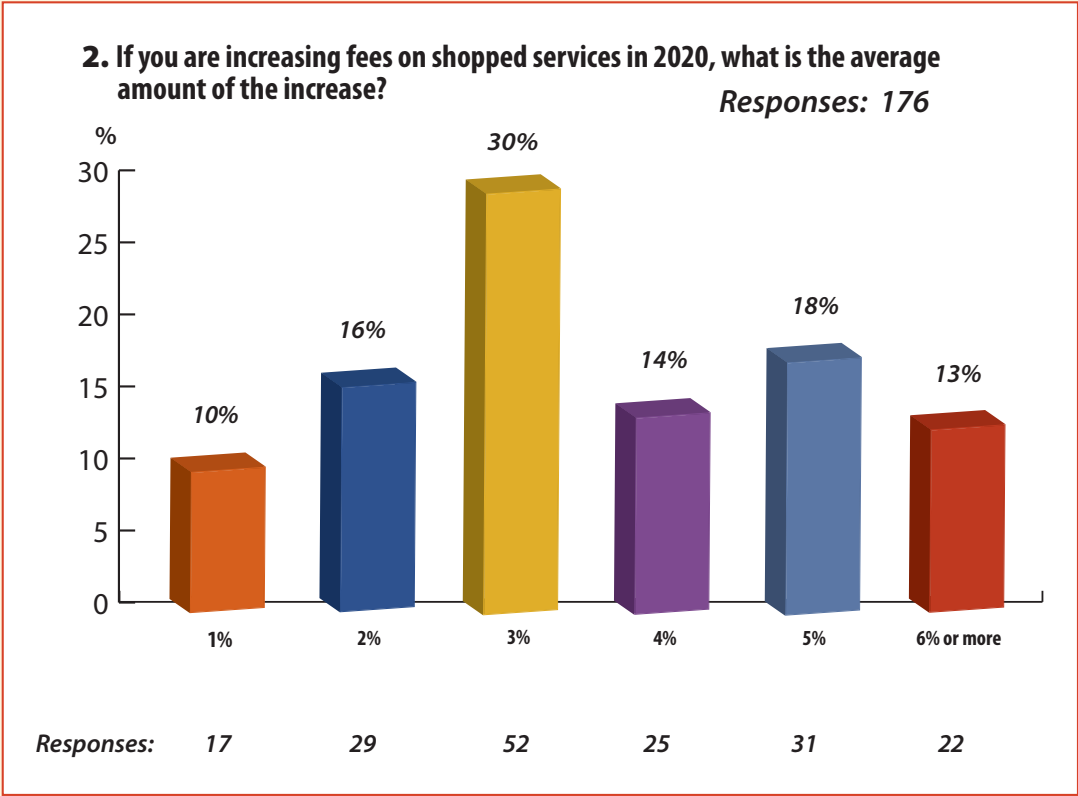
by Karen E. Felsted, CPA, MS, DVM, CVPM, CVA PantheraT Veterinary Management Consulting

Each year the VHMA asks practices about planned or anticipated fee increases for the year. Depending on the question, the number of responses ranged from 176-264. As with past years, the majority of the practices participating in this survey said yes to the question: ***“Have you or will you raise your professional service fees in 2020?”***



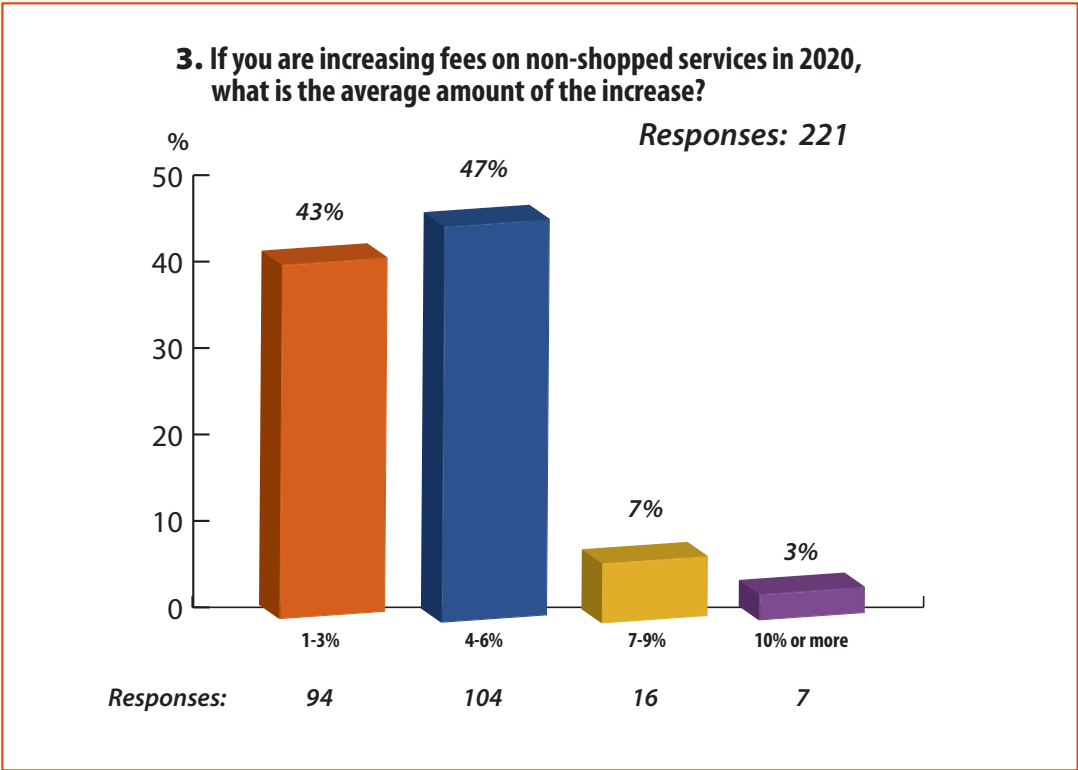
As can be seen above, most of the respondents (66%) said they would be increasing fees on both shopped and non-shopped services. More practices in 2020 (compared to 2019) are increasing their fees on both shopped and non-shopped services and fewer are not increasing fees or only increasing them on non-shopped services.

The next question asked: ***“If you are increasing fees on shopped services in 2020, what is the average amount of the increase?”***



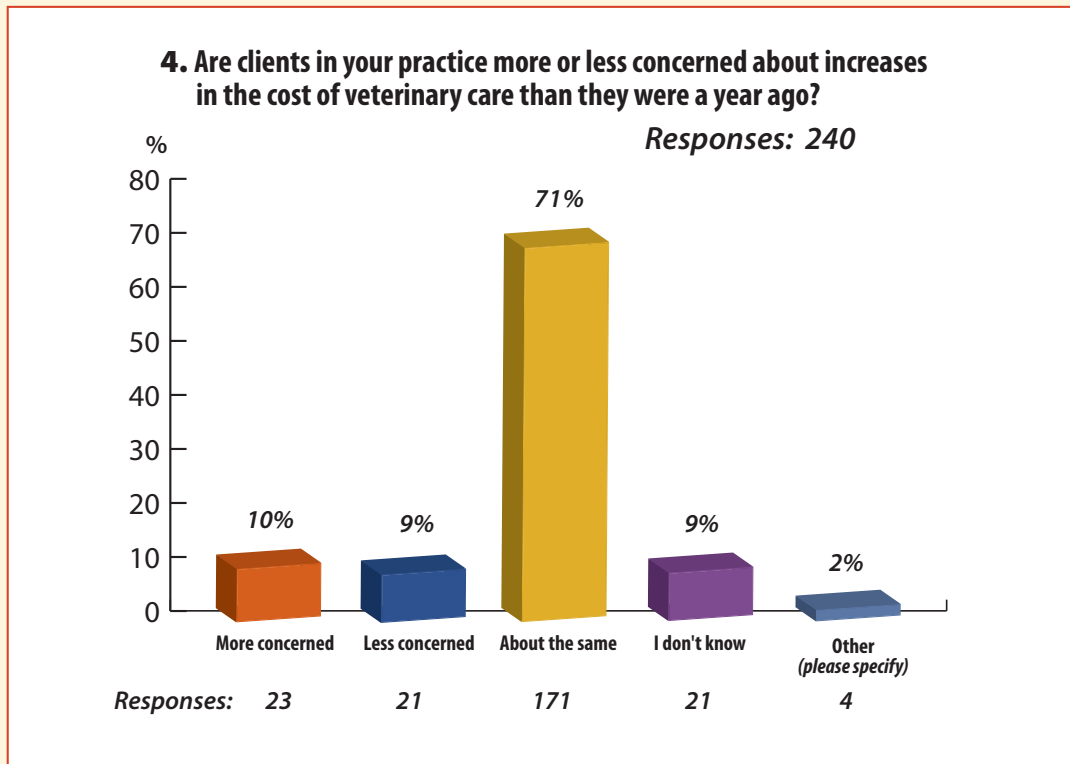
About 44% of the responding practices are increasing shopped services by 4% or more; this is essentially the same proportion of practices as in 2019. Surprisingly there was a shift towards a lower increase for the rest of the practices; in 2019, about 41% of practices increased shopped service fees by 3% and 15% by amounts less than 3%. In 2020, just 30% increased fees by 3% and 26% by lesser amounts. For most of the practices included in this service, shopped veterinary fees increased more than the rate of inflation for 2019 (1.8%).

Hospitals planned on increasing the fees on non-shopped services by a greater amount as demonstrated by the answers to the next question: ***“If you are increasing fees on non-shopped services in 2019, what is the average amount of the increase?”***



About 10% of the responding practices are increasing non-shopped services by greater than 6%; this is essentially the same proportion of practices as in 2019. Surprisingly there was a shift towards a lower increase for the rest of the practices; in 2019 about 54% of practices increased non-shopped service fees by 4-6% and 35% by amounts less than 4%. In 2020, 47% increased these fees by 4-6% and 43% by lesser amounts. Again, it should be noted that most of these practices increased overall non-shopped fees by more than the rate of inflation for 2019 (1.8%).

Practices reported that these fee increases didn't seem to be a big issue with clients. The question asked was: **"Are clients in your practice more or less concerned about increases in the cost of veterinary care than they were a year ago?"**



2020 results were consistent with 2019.

One of "other" answers indicated how a practice is continuing to increase fees but finding a way to support this: "Clients are increasingly price-sensitive, so we have expanded our payment options to find ways to manage the cost of care for the vast majority of our client base. We are increasingly becoming a payment plan, rather than a full payment today practice. In any case, this shift is working to increase our client base and gross revenue."

The last two questions were open-ended and asked what factors or strategies were considered in deciding how much to increase either the shopped or non-shopped services. The most commonly mentioned factors or strategies for shopped services are listed below; these were the same as in 2019:

- Overall cost of doing business and anticipated future cost increases
- Increases in practice costs for particular product or service
- What other practices are charging
- Inflation
- Time since the last increase
- Location and area standards
- Demographics of local pet owners
- Fee references such as AAHA, WMP
- Gut instinct

The most commonly mentioned factors or strategies for non-shopped services included all of those used in pricing shopped services as well as:

- Frequency service is utilized by pet owners
- Client perception of value

Again, these were the same as in 2019. A few additional factors/strategies mentioned this year included: Profit Solver, the need to increase fees to account for minimum wage increases and the need to hold fees stable due to the opening of a low-cost clinic nearby.

Reference Prices

In the March 2019 Insiders' Insights report (link below), we talked about setting fees, how to determine if you have a price problem, how fee setting should fit with your other business strategies and various tactics to consider. One of the issues mentioned was the use of reference prices. A reference price is the amount a consumer perceives as the common, reasonable price available in the marketplace. https://cdn.ymaws.com/members.vhma.org/resource/resmgr/insiders_insights_2019/vhma_insiders_insights_march.pdf

Fee references such as the AAHA Veterinary Fee Reference and information found in Benchmarks: A Study of Well-Managed Practices are often used by practices as a source of reference prices. These guides include a large conglomeration of data regarding what other practices are charging but that isn't the same as what consumers believe the price in the marketplace is. They are useful books to use in order to understand where your practice falls in the price mix and to see how certain types of your fees are priced compared to others but they shouldn't be an absolute mandate for what your prices should be.

Until now, we have had very little direct information about the specific dollar amount pet owners are willing to pay for particular services and what aspects of the veterinary visit experience would induce them to pay more. The August 2019 release of the Pet Owners Economic Value Study changes that by adding a new dimension to our knowledge of pricing in veterinary medicine.

The study was conceived by and spearheaded by the Veterinary Hospital Managers Association (VHMA) and sponsored by CareCredit, Merck Animal Health, and Nationwide. The primary author of this study is Utpal Dholakia, Ph.D., a well-known marketing and pricing expert and the George R. Brown Professor of Marketing at the Jesse H. Jones Graduate School of Business, Rice University in Houston, Texas.

The study was conducted through a nationwide online survey of dog and cat owners throughout the country, covering a diverse range of pet owner ages, household incomes, and geographic location. A total of 3,452 pet owners (1,949 dog owners and 1,533 cat owners) completed the survey. The study employed the price sensitivity meter (PSM) methodology for evaluating customer willingness-to-pay for veterinary services; this technique is widely used across different industries to discover the economic value that consumers place on products and services.

The first section of the survey identified what pet owners were willing to pay for various common services provided by companion animal general practices. The services included in the study are:

- Essential vaccination package including a physical exam and all vaccines required to keep the pet safe from common diseases for the next year
- Physical examination
- Spay or neuter including pre-anesthetic bloodwork, anesthesia, the surgery itself, IV fluids, and appropriate pain medication during and post-surgery

continued on pg. 7

- Dental care service package including pre-anesthetic bloodwork, a full dental cleaning, any minor extractions, dental X-rays, pain medication, and antibiotics if necessary
- Parasite testing including fecal and heartworm test
- Basic laboratory tests including CBC, blood chemistry and urinalysis
- X-ray package including two views and in-house interpretation
- Monthly payment for a pay-by-the-month preventive care plan including an annual physical examination, all core vaccinations, parasite testing, and year-round prevention of parasites through appropriate medications

So what did pet owners say they were willing to pay for these services? In the two charts below, one for dog owners and one for cat owners, definitions for the prices are as follows:

- The preferred price is what pet owners consider to be an attractive or desired price for the service; it is a “customer-friendly” price providing a good balance of costs and benefits and delivering good value.
- The reference price is a common reasonable price for the service that is available in the marketplace according to the customer.
- The acceptable price range is one in which pet owners are likely to consider buying the service and price acts as less of a deterrent in buying decisions. Prices outside this range are considered by the customer as so low as to be suspicious or so high as to be unaffordable or unwarranted.

Dog Owner Responses	Preferred Price	Reference Price	Acceptable Price Range
Essential vaccination package	\$59	\$75	\$50-\$100
Physical examination	\$51	\$57	\$50-\$76
Spaying or neutering	\$101	\$101	\$76-\$141
Dental care service package	\$75	\$90	\$51-\$101
Parasite testing	\$51	\$51	\$41-\$65
Basic laboratory test panel	\$58	\$75	\$51-\$100
X-ray package	\$66	\$80	\$50-\$101
Pet wellness plan (per month price)	\$31	\$31	\$26-\$45

Cat Owner Responses	Preferred Price	Reference Price	Acceptable Price Range
Essential vaccination package	\$50	\$64	\$49-\$75
Physical examination	\$49	\$59	\$41-\$66
Spaying or neutering	\$76	\$101	\$52-\$101
Dental care service package	\$65	\$77	\$51-\$101
Parasite testing	\$41	\$51	\$31-\$55
Basic laboratory test panel	\$51	\$71	\$50-\$80
X-ray package	\$51	\$75	\$50-\$90
Pet wellness plan (per month)	\$26	\$26	\$21-\$31

Not surprisingly, the preferred price (the customer-friendly price or the one consumers really want to pay) is less than the reference price, which is the perceived common reasonable price in the marketplace!

Study participants were also asked to provide the amount they consider reasonable to spend annually for their pet's care. The first question is about total annual spending: ***"What amount do you consider as reasonable to spend for your pet's medical care each year, including preventive care, services when your pet is sick and emergency care? (Please provide a dollar amount, \$)."***

Responses were as follows:

Dog Owners	Mean	Median	5th percentile	10th percentile	25th percentile	75th percentile	90th percentile
All	\$555.44	\$400	\$100	\$120	\$200	\$500	\$1,000

In comparison, the average spent per dog in dog-owning households who visited a veterinarian in 2016, according to the AVMA was \$308.¹

Cat Owners	Mean	Median	5th percentile	10th percentile	25th percentile	75th percentile	90th percentile
All	\$457.82	\$300	\$80	\$100	\$200	\$500	\$1,000

Again in comparison, the average spent per cat in cat-owning households who visited a veterinarian in 2016 was \$177.²

The second question in this section of the study focused on annual preventive care spending: ***"What amount do you consider as reasonable to spend for your pet's routine preventive care such as vaccinations, parasite testing, flea and tick preventives, heartworm preventives, and similar services each year? (Please provide a dollar amount, \$)."*** Responses were as follows:

Dog Owners	Mean	Median	5th percentile	10th percentile	25th percentile	75th percentile	90th percentile
All	\$245.58	\$150	\$50	\$50	\$100	\$300	\$500

Cat Owners	Mean	Median	5th percentile	10th percentile	25th percentile	75th percentile	90th percentile
All	\$175.93	\$100	\$25	\$50	\$75	\$200	\$300

Results from this study were mixed. What pet owners perceive as the market price for a physical exam is similar to what is being charged; the opposite is true for a dental. What the average pet owner is spending per year on care seems to be less than what pet owners would be willing to spend.

What does a practice do with this information? The answer isn't to lower all your fees. However, it is clear from this and other studies that practices need to be more strategic in their fee setting and fee increases rather than just raising fees by a certain % every year. No matter what we, the veterinary profession, want to charge for veterinary care or think we deserve to be paid, the ultimate decision is made by pet owners based on the value they see in the services we provide. What pet owners will be willing to pay can be influenced through education, a better product or service, or a great client experience but pet owners still determine what veterinary care is worth and we have to find a way to accept that or offer a product or service that they value more.

¹ 2017-2018 Edition AVMA Pet Ownership and Demographics Sourcebook

ⁱⁱ 2017-2018 Edition AVMA Pet Ownership and Demographics Sourcebook