

Economic Challenge of the Veterinary Market

Competing in a Crowded Space

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Current Challenges in the Veterinary Profession and the ~~the~~ **an** Industry Perspective

- Current Challenges?
 - Veterinary Supply
 - Student Income/Debt
 - “Fairness to Pet Owners” Act
 - Competing for Discretionary Income

“If there are no dogs in Heaven, then when I die I want to go where they went.”



Will Rogers

October 24-25, 2016

AVMA Economic Summit

INDUSTRY RESPONSE

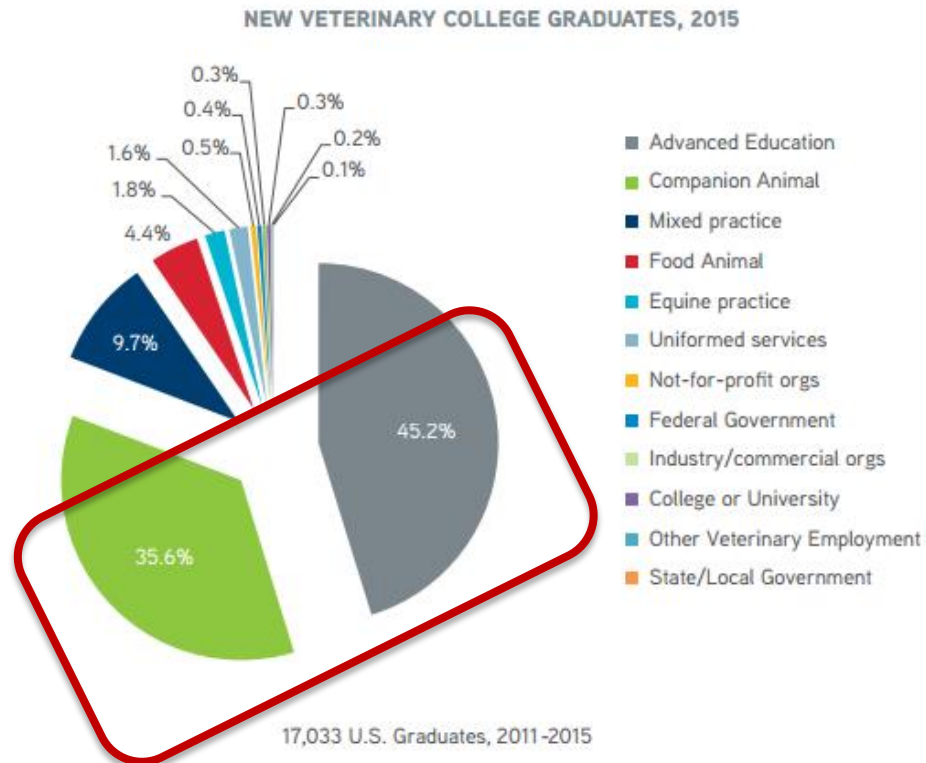
- Industry perspective:
 - The veterinary market from the perspective of an economist working in the animal health industry
 - Matthew Salois, Economist with Elanco Animal Health

What Stood Out

- Skewed distribution of new veterinarians
- New graduate debt rising faster than income
- Experience affects earnings differentially

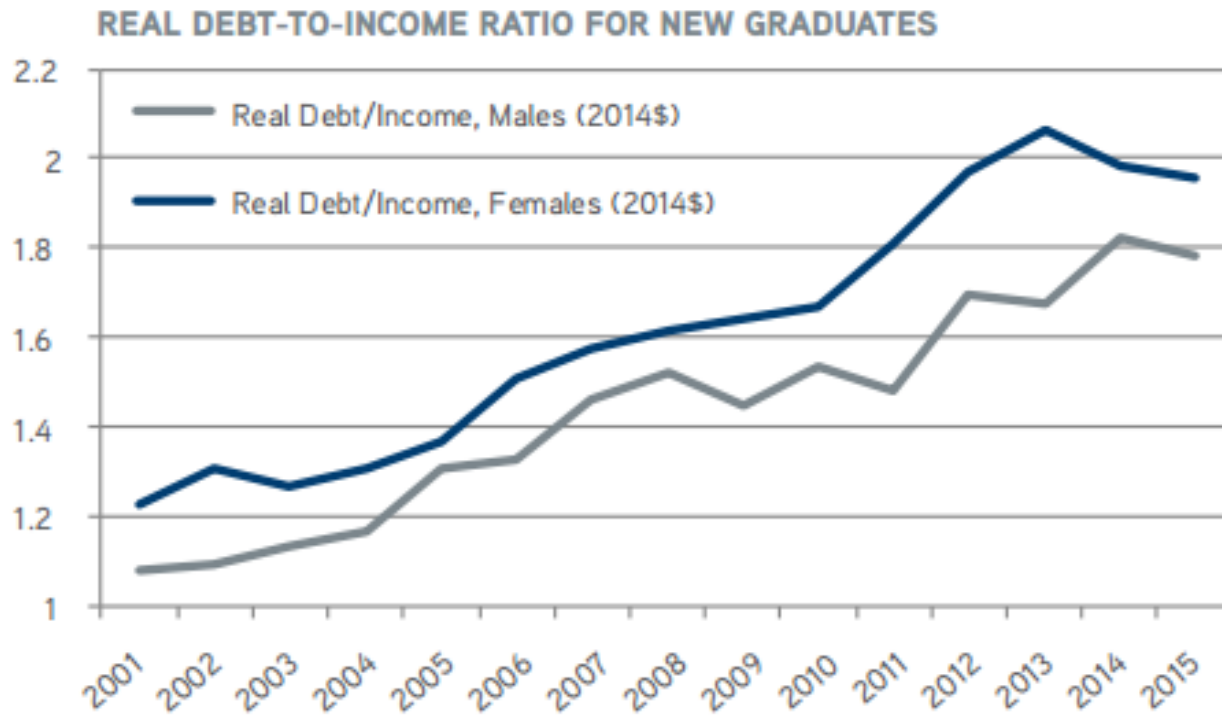
Skewed distribution of new veterinarians

- 80% in advanced education or companion animal 2011-2015 (65% of total vet population)



New graduate debt rising faster than income

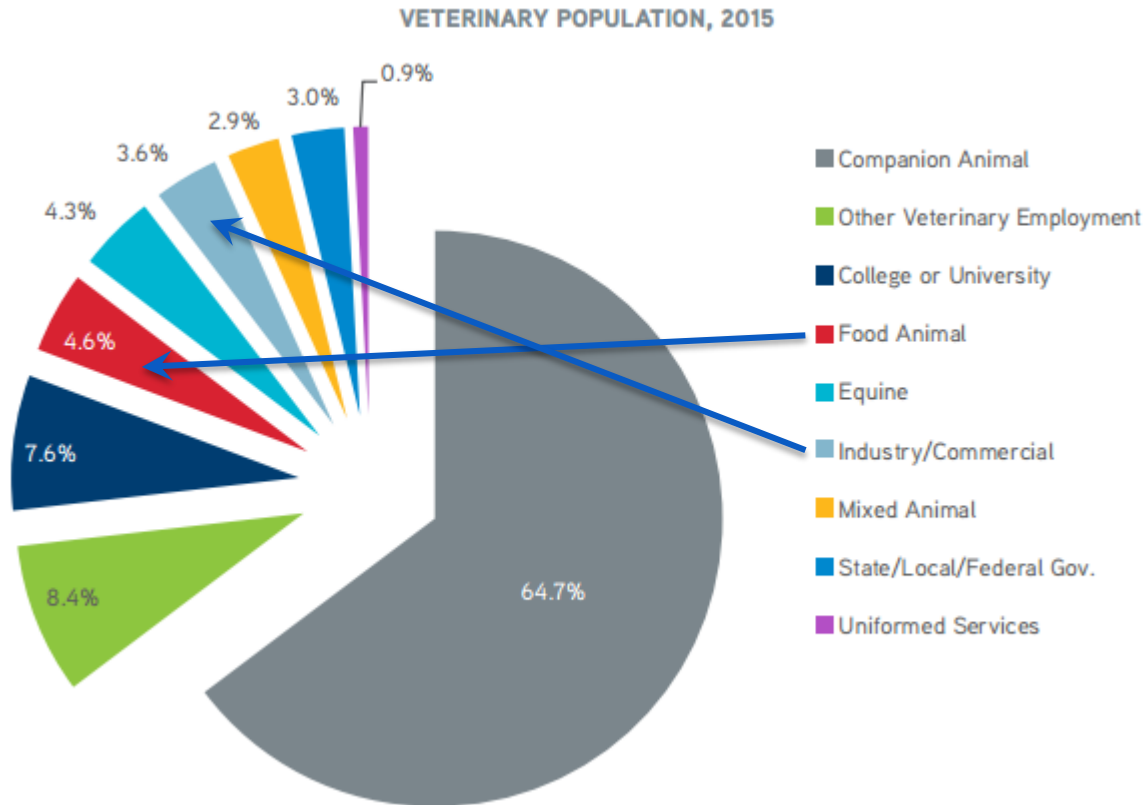
- Greater disparity in women and higher debt-to-income ratio



2016 AVMA REPORT on VETERINARY MARKETS

Experience affects earnings differentially

- Food Animal (excl) & Industry/Commercial have high ROI on additional years of experience



Anything Critical Missing

- Taking the analysis beyond the numbers
 - What?
 - The U.S. veterinary profession is experiencing **excess capacity**, not an oversupply of veterinarians
 - So What?
 - Three **options**
 - ❶ Reduce supply,
 - ❷ Lower price (growth),
 - ❸ Increase demand
 - Now what?
 - How can this information be leveraged and translated into **actionable items**?

WHAT WOULD I DO DIFFERENTLY?

- Go beyond the descriptive to being prescriptive
 - Need to address the “Now What”
 - What actions logically follow from the analysis, both for the AVMA and for the veterinary practice?
 - Reducing supply or lowering price are not successful strategies in the long-run
 - Reducing supply leads to reducing relevance
 - Lowering price is a tactic not a strategy
 - Demand creation is a sustainable business strategy
 - How to be invaluable to pet owners and increase scope of veterinary visits

Good judgement comes from experience....
and a lot of that comes from bad judgement.



Will Rogers

Brakke Consulting, Inc

February 2015

*US Pet
Pharmaceutical Study*

Objectives

- Paint picture of future U.S. pet pharmaceutical marketplace
- Is the 1st place pet owners go to purchase veterinarian-prescribed meds beginning to change with more choices
 - New distribution models
 - Legislation
- Understand how change will affect those involved

Audiences

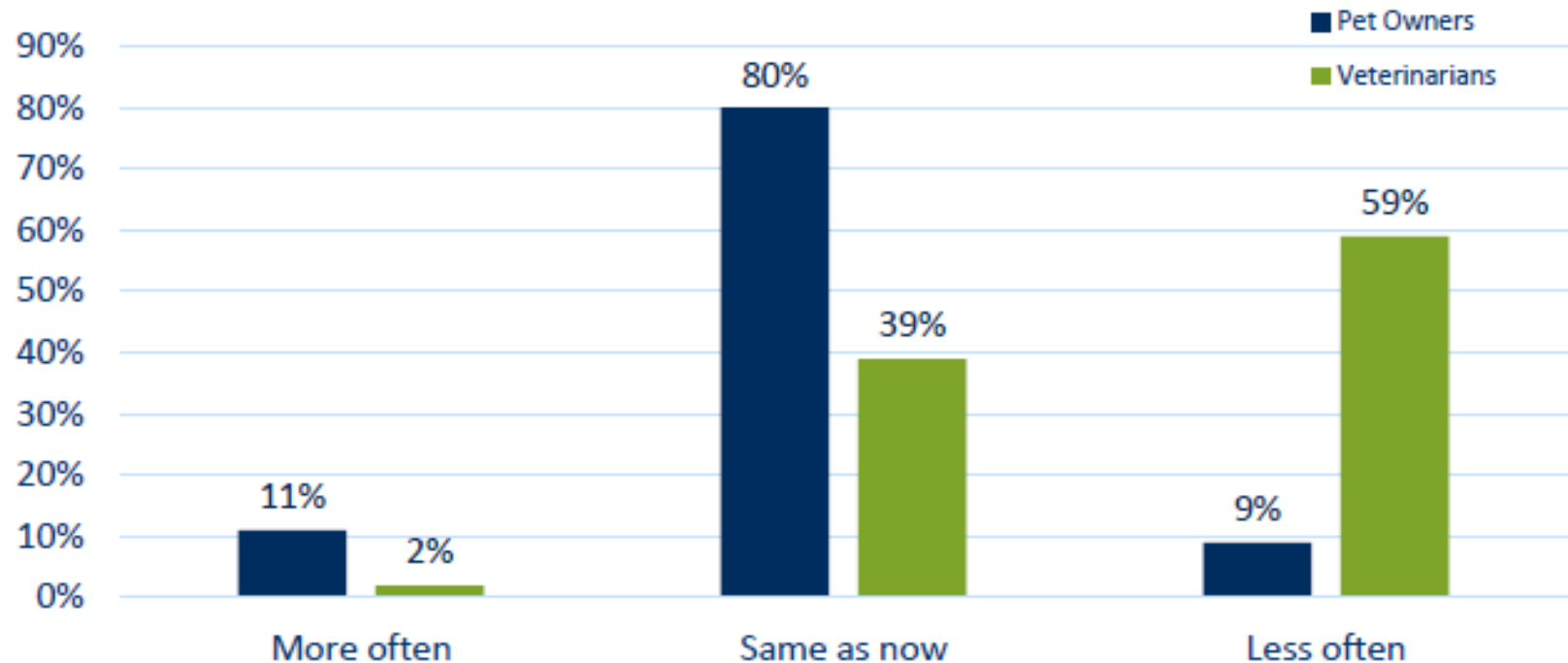
- Quantitative

- Pet owners (N=1,006; 633 ≥ 1cat; 734 ≥ 1 dog)
- Veterinarians (N=520)
- Pharmacists (N=785)

Pet Owner Responses

- 77% net awareness of an alternative to the veterinary clinic

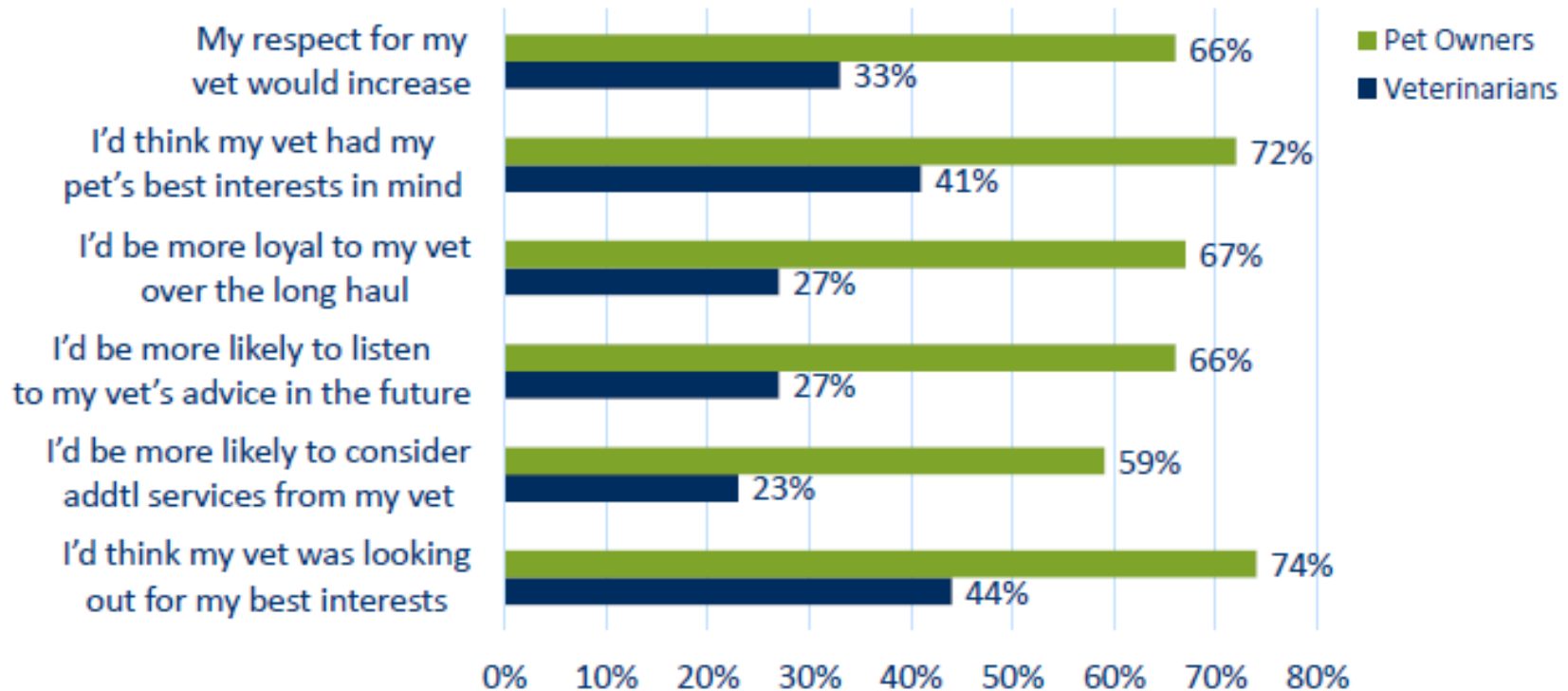
Over Estimation of Lost Visits



PET OWNERS: How do you think pet prescription medications being more widely available for purchase outside the veterinary clinic will affect how often you visit your veterinarian?

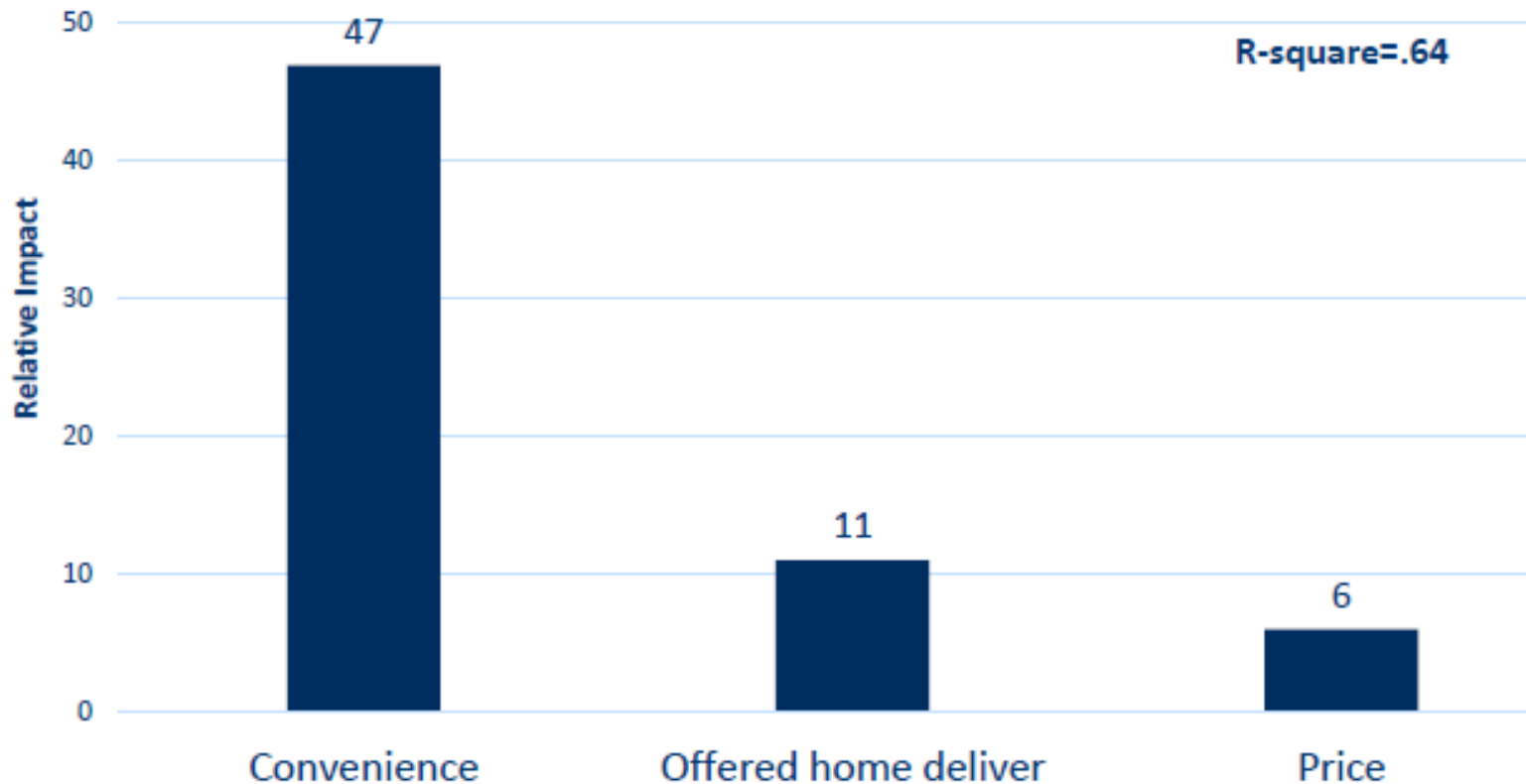
VETERINARIANS: How do you think pet prescription medications being more widely available for purchase outside the veterinary clinic will affect how often your clients visit your clinic?

Importance of Transparency by Veterinarian



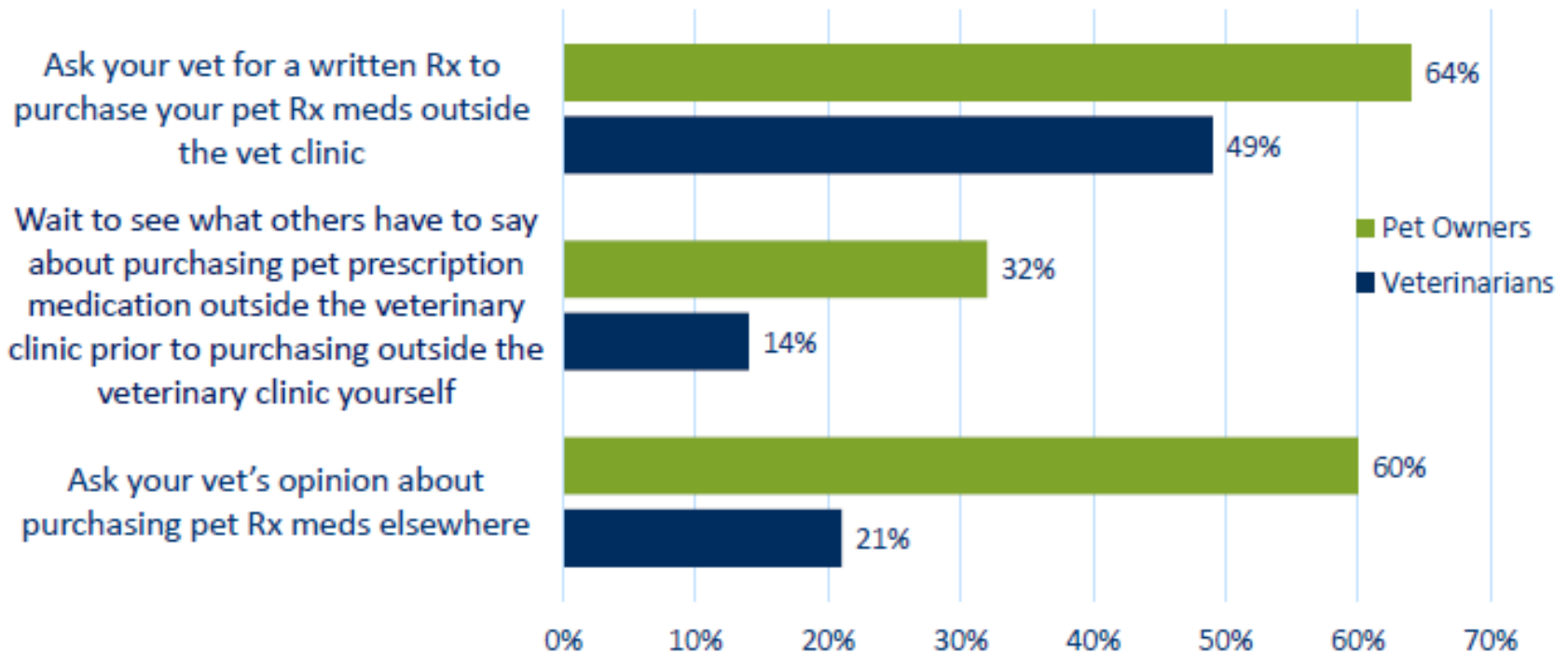
PET OWNER: Suppose your veterinarian recommended that you purchase an effective brand of prescription pet medication outside the veterinary clinic for less money than you'd have to spend on a comparable product available directly from your veterinarian. Keeping that in mind, please indicate your level of agreement with each of the following statements.

Top 3 Differentiating Drivers of Switching Purchase Location for Rx Pet Medications



PET OWNERS: How influential was each of the following in your decision to switch where you purchase?

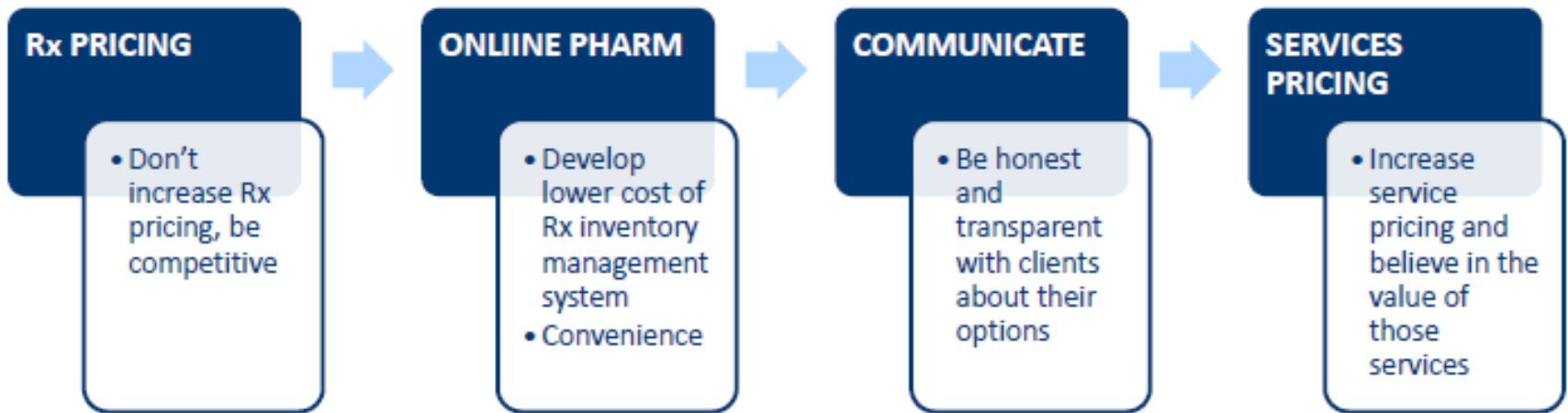
Pet Owners Want Purchase Option; BUT Also Want Advice



PET OWNERS: You indicated that you'd be likely to purchase some pet prescription medication outside the veterinary clinic. How likely would you be to do each of the following? (% Top 2 Box)

VETERINARIANS: If pet owners were universally aware they could purchase prescription pet medications from mass merchants (e.g., Target or Walmart), drug stores and grocery stores, how likely would they be to do each of the following? (% Top 2 Box)

Path Forward



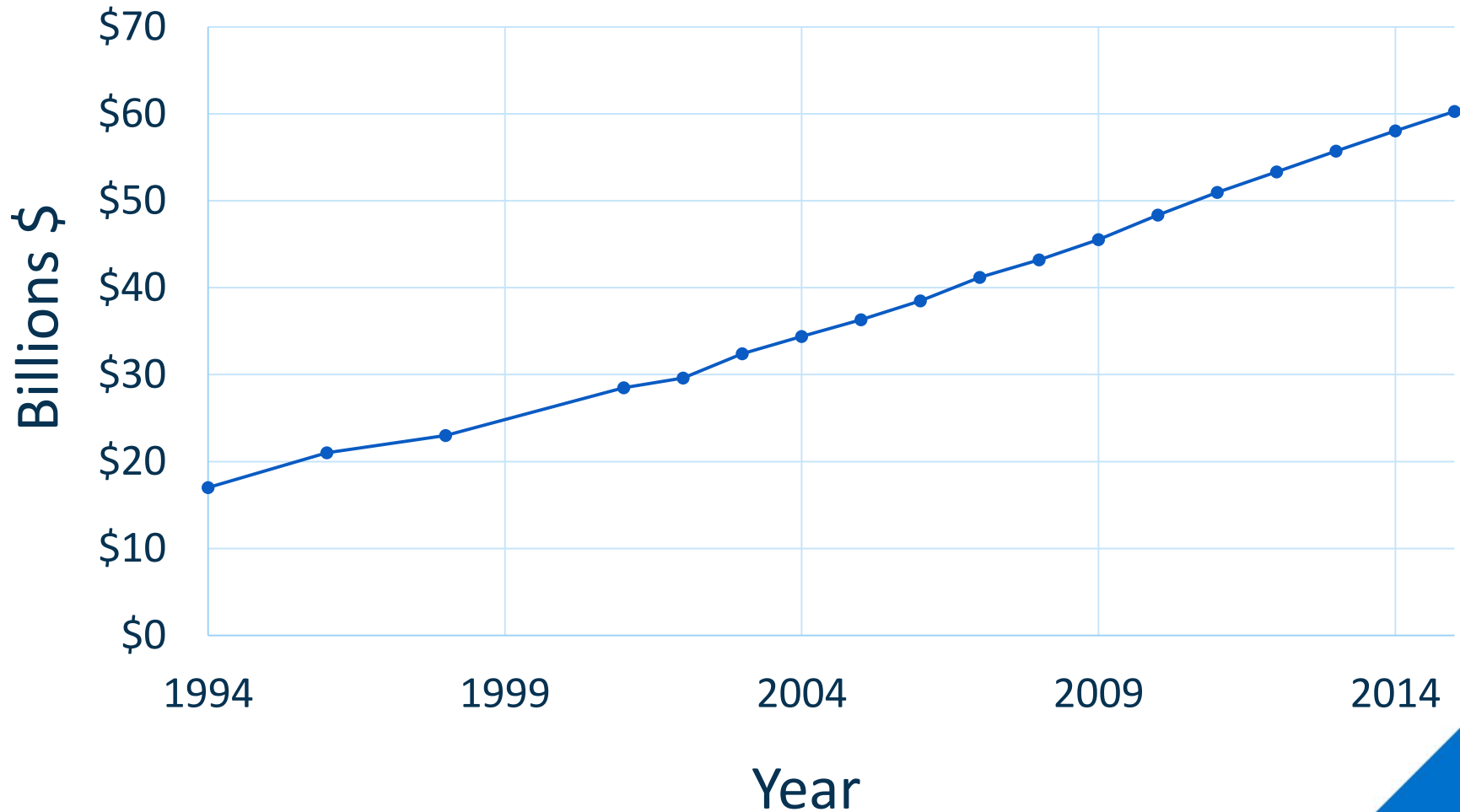
“Always drink upstream from the herd.”



Will Rogers

Competing for Clients Discretionary Income

Total U.S. Pet Industry Expenditures 1994-2015



Actual Sales within the U.S. Market in 2015

Food	\$23.05 billion
Vet Care	\$15.42 billion
Supplies/OTC Medicine	\$14.28 billion
Live animal purchases	\$ 2.12 billion
Pet Services: grooming & boarding	\$ 5.41 billion

Veterinary Care only 25% of Expenditures

Competition for Clients

- What Products/Services are Commodities?

Examples

- Water
- Coffee

Purchase Decision Process

- Recognition of Need or Problem
- Information Search
- Alternative Evaluation
- Purchase Decision
- Post-Purchase Behavior

Value Proposition

$$\text{Perceived Value} = \frac{\text{Perceived Benefits}}{\text{Cost}}$$

Examples of Value Based Purchase Decisions

- Sports Tickets
- High End Restaurant experience

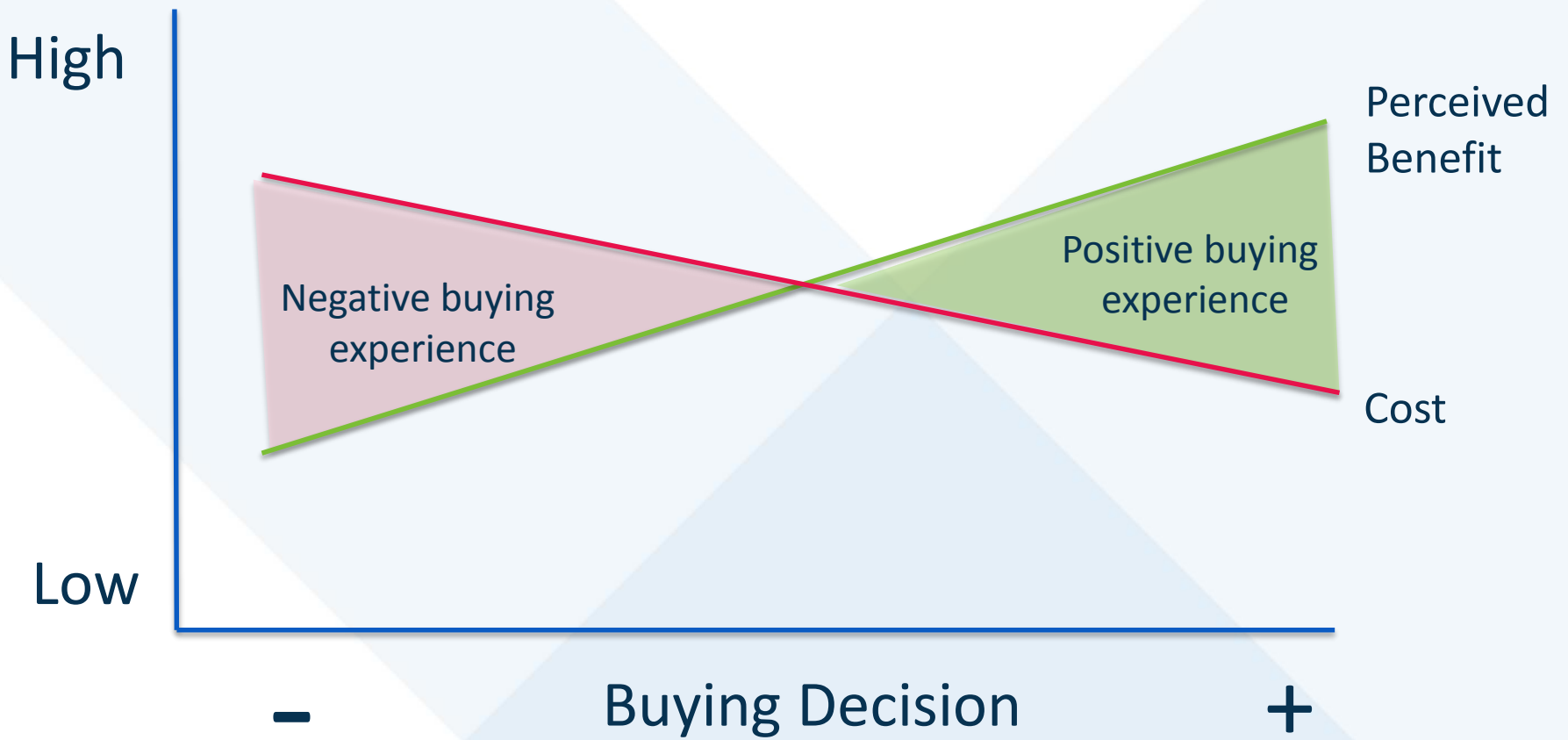


Value

- Benefits Provided
- Service Provided
- Relationship with Provider
- Brand Reputation

Benefit vs Cost

- Benefit = loss of something negative or gain of something positive
- Cost = loss of something positive or gain of something negative
 - Money
 - Time
 - Mental Energy
 - Physical Energy
 - Psychological Impact
 - Risk vs peace of mind



Promote Value Proposition of Veterinary Visit

- What do consumers want
 - Positive Experience
 - Convenience
 - Information
 - Relationship

Strategy vs. Tactics

- Strategy
 - Increase Value
- Tactics
 - Lower price
 - Pre-schedule future visits and product refills
 - Annualized payment programs
 - Pet Insurance
 - On line interface
 - Social media connections

Post Purchase

- Evaluate purchase vs. benefit/cost
- Influence future decisions and buying behavior
 - High Value \Rightarrow Shortened future purchase decision process
 - Recognition of Need or Problem
 - Information Search
 - Alternative Evaluation
 - Purchase Decision
 - Post-Purchase Behavior

Suggestions for further work

- Opportunities for innovation and value creation
 - New value-added products & services
 - Drive pet outcomes, convenience, & revenue
 - Innovative practice management & operations
 - Inventory control, staff utilization, & technology
 - Differentiate risk from opportunity
 - Pet insurance, online Rx, transparency
 - Leverage relationship with pet owner
 - Veterinarians are highly regarded & trusted

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tomroberts101.com

Things ain't what they used to be...
and probably never was!



Will Rogers