

SECTION 1

MARKETPLACE

1.1. MODELS OF VETERINARY PRACTICE



BASICS

OVERVIEW

In general, veterinary practices have changed very little over the past few decades. Although there are a number of corporate players in the field in the United States, probably representing 12–15% of small animal practices, the vast majority of veterinary practices in the country are owned as sole proprietorships, closely held corporations, or partnerships. The retail environment, on the other hand, has changed dramatically over the same period. Major retailers have entered bankruptcy protection, whereas online retailers and discount chains have evolved to better serve the perceived needs of the public.

Pet owners today want choices in the services they can request: 24-hour access to health-related information, the ability to price-shop for items they consider commodities, the opportunity to participate as equal partners in health decisions, and the ability to interact on their own schedules. Today's consumer also wants choice, variety, value, and time-saving options. These are often hard to accommodate in current veterinary practice models.

TERMS DEFINED

Commodity: An item that is considered interchangeable, and whose price is a reflection of supply and demand. For example, one 500 mg capsule of cephalexin is much like any other to a client, regardless of brand name and whether they get it at a veterinary hospital, at their local drug store, or through an online pharmacy.

Economy of Scale: The reduction in cost per unit that results when operational efficiencies allow increased production. Thus, there are savings, because as production increases, the cost of producing each additional unit decreases.

Economy of Scope: The reduction in cost that results when delivering two or more distinct goods or services, when the cost of doing so is less than that of delivering each separately. It is the efficiency attributed to variety and diversification rather than volume.

Full-Time Equivalent: A method of comparing practices based on a full-time schedule of 40 hours a week. If a practice has two veterinarians, one working 50 hours a week and one working 20 hours a week, that practice has 1.75 full-time equivalent veterinary positions [i.e., $(50 + 20)/40$].

Mom-and-Pop: A colloquial term for a small, closely held company in which the principals owning the business are also the principals working in the business.

Retail-Anchored Practice: A veterinary practice affiliated with a retail entity.



ISSUES AND OPTIONS

THE CURRENT SITUATION

- The veterinary small animal market in the United States is a highly fragmented environment of approximately 28,000 primary care practices. The majority of practices employ fewer than three full-time equivalent veterinarians.¹
- The small number of veterinarians per practice does not bode well for the continued success of the current veterinary model. Operating a veterinary hospital is an expensive undertaking, and there are few economies of scale or scope to be derived from such small business ventures (see 2.1 – Workplace Management). Other small retail units, such as “mom-and-pop” drug stores or hardware stores, have largely been replaced by entities that have revolutionized those industries to better meet customer needs.
- Most veterinary practices in a community are remarkably similar, with little to differentiate one from another in the minds of consumers (see 6.15 – Practice Differentiation). They are often competing against one another for the same small market share, with new veterinary practices opening in local markets that can barely support the practices already in existence.
- The result is that communities often have many small veterinary practices with proportionately high overheads, because these practices tend to offer all veterinary services (e.g., surgery, hospitalization, radiography, etc.) and must be staffed accordingly. The competition puts downward pressure on prices while keeping hospital costs high. This leaves these small practices chasing the same resources that become harder and harder to attract: clients, trained staff, and associate (employed) veterinarians.
- The current model – in which clients who have pets with health problems schedule appointments with their primary care veterinarians, receive treatment, and/or are referred to specialists and then are expected to follow special instructions – is a system fraught with inefficiencies. It is one that has never worked particularly well, either in human medicine or veterinary medicine. Current studies of compliance in the veterinary industry, in which veterinary estimates of client compliance are far more optimistic than the facts suggest, attest to this (see 4.11 – Compliance and Adherence). Actually, few veterinary practices track compliance, increasing the likelihood that clients are not being adequately served by the practice or that they are receiving some of the needed services elsewhere (including nonveterinary outlets).

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- Today's veterinary graduates also confound the picture for current practice models. Many are seeking lifestyle benefits that are harder to come by in small practices: a shorter workweek, on-the-job mentoring, continuing education, and the potential for piecemeal equity ownership. These smaller practices can also be difficult to market when the owner wishes to sell. Corporate practices have their own criteria for practice acquisition that often does not include small practices, and valuations for these small practices no longer mirror past standards wherein the seller could expect to be paid based on a certain percentage of gross revenues. In addition, in recent years, there has even been the prospect of staff joining unions in some practices, suggesting that not everyone is satisfied with the current business model.

- Veterinary graduates these days also tend to concentrate in clinical practice. Although needs assessments suggest that there are no shortages of veterinarians in practice, need and opportunities exist in research, industry, and public health.²

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- Today's pet owner is also a savvy consumer, familiar with elite business practices such as those used by Walmart, eBay, Disney, Amazon, Internet pharmacies, and out-of-country pharmacies that offer lower rates (see 1.5 – Today's Pet Owner).
- In the American family of yesteryear there was a male head of the household, a female stay-at-home spouse, and two-plus children. With a stay-at-home mom, it was relatively easy to schedule a veterinary appointment during the workday. But things have changed. The typical American family no longer exists; most adults, both male and female, are working during normal business hours. And consumer debt is rising.
- As can be seen in other industries, consumers want selection, choice, value, and time-saving options, and they want it on their own schedules.

POTENTIAL FOR NEW MODELS

- Human physicians learned long ago that they could not be all things to all patients. These days, general practitioners rarely deliver babies, perform surgery, or do their own radiography. In many instances, offices of general practitioners do not even collect samples to send to the laboratory. Instead, the patient typically goes to the laboratory to have the sample drawn. Even something as basic as vaccination may be delegated to other entities, such as public health outlets and even retail pharmacies.
- For a similar system to work and be convenient for veterinary clients, there needs to be considerable consolidation in the industry, which is

only now starting to take place in earnest. For most small veterinary practices, the examination rooms are the profit centers that drive the practice. Performing other duties in the clinic, even such things as radiography and surgery, are often only marginally profitable, and sometimes are actually money-losing ventures when a true profit-center analysis is done.

- Currently fewer than 20% of practices in the United States are corporate (see 1.21 – Corporate Veterinary Practices) but without compelling evidence that they are leveraging hospital numbers to attain true economies of scale and scope. Whether this will change as more and more hospitals are added or assimilated has yet to be determined. It has been suggested that when 25% of practices are corporate owned that this could actually represent 50% of all veterinary visits (<https://brakkeconsulting.com>).
- Retail-anchored practices have started to appear in some communities. These are independent veterinary practices that are directly affiliated with retail entities (e.g., pet stores, human pharmacies, big box retailers, etc.) and can benefit from extensive cross-promotion with the retailer with which they are affiliated. In many ways, these may pose more of a threat to traditional veterinary practices than corporate clinics, since they tend to concentrate on the more profitable outpatient care, which they often price competitively to attract retail business.
- Efficient models of veterinary practice have veterinarians performing the duties for which they are best suited and working in a collaborative fashion with other professionals to deliver more comprehensive care. Even in a two-doctor model, it will always be more efficient if one doctor is performing surgeries all day while the other is seeing clinical cases all day, rather than each doctor alternating between clinical and surgical duties. It is even more efficient if separate services are run as distinct profit centers. This would allow veterinarians to charge on the basis of their costs and not spread the costs of all hospital operations across the total client base. In too many veterinary hospitals, certain services (e.g., surgery, imaging, hospitalization) are subsidized by other services (e.g., pharmacy or laboratory), such that neither is appropriately priced to the consumer (one is unfairly high and the other is unfairly low). This, in turn, invites competition for the service that is priced unfairly high. Similarly, with enough general veterinary practitioners in a given hospital setting, there are economies of scale to permit the functioning of separate profit centers at fair prices to consumers and fair remuneration for practicing veterinarians (see 7.12 – Pricing Strategies).

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• Creating profit centers in large collaborative practices is not enough to fully meet the needs of pet-owning clients (see 9.5 – Profit Centers). A truly client-centered practice should also emphasize the following:

- Access to specialists: Clients are very aware of specialists in human medicine, but are not necessarily aware that the same kinds of services are available for animals. Clients should realize that specialists are an extension of their primary care veterinary hospital and that the specialists and primary care veterinarians will work together with them as a healthcare team (see 4.23 – The Extended Hospital Team – Making Referrals Work).
- Access to telehealth: There are many forms of telehealth available to both clients and veterinarians (see 4.24 – Telehealth).
- Access to reliable medical information: Veterinary practitioners traditionally have not done a very good job of educating their clients on the entire spectrum of healthcare options available. With websites and databases, it is now possible for veterinarians collectively to create an evidence-based resource in which clients can research the most effective drugs, treatments, and tests to address the patient's individual needs (see 4.8 – Pet-Specific Care). It may even be possible to give clients access to some aspects of their pets' medical records (see 10.9 – Blockchain). If clients do not get this kind of support from the veterinary profession they will seek it elsewhere, so it is best that this access be viewed as part of the solution rather than part of the problem.
- Access to health educators: There is a much-needed role in client education that is currently unmet in the profession. Clients need help with understanding care pathways and treatment plans (see 9.3 – Standards of Care and Care Pathways), having someone check on them periodically to see if they have questions or need a veterinary visit, and helping them navigate the veterinary healthcare arena. This kind of client advocate could be a veterinary nurse/technician or specially trained assistant, or could even be a network affiliate of a larger veterinary healthcare system. If veterinarians are concerned with compliance and client loyalty, this is an important consideration.
- Access to clients with similar concerns: Social media is very popular, and many people are comfortable hearing accounts from other individuals who share the same concerns. Sometimes, just hearing from another individual who has been through the process is enough to put clients at ease regarding procedures being contemplated. Having such a discussion moderated by a veterinarian or trained nurse/technician is even more valuable and helps stop medically inaccurate information from being disseminated.
- Access to training and behavior consultants: Surveys have shown that many pet owners do not initiate discussions with veterinarians about behavior problems, and the converse is also true. Behavior problems are the main cause of pets being relinquished, however, so training is a critical component of pet ownership that must not be ignored (see 5.14 – Discussing Behavior).

These are important changes, but they are not necessarily the only changes that need to be made to veterinary practice models in order to create a more effective healthcare delivery service.



EXAMPLES

A client who owns a Doberman pinscher pup searches a veterinary medical resource linked to the primary care veterinarian's website and learns that the breed is susceptible to von Willebrand disease, a bleeding disorder. The client sees that there is both a DNA test and a von Willebrand factor assay available, and initiates a discussion with the health educator assigned by the practice. They schedule an appointment for the tests to be run. It turns out that the dog does, in fact, have von Willebrand disease. The client joins a veterinary-supervised discussion group for the disorder and makes arrangements with the veterinary hospital to be appropriately prepared for upcoming neutering surgery. The veterinary hospital provides a higher level of care at higher revenue, and averts a potential emergency – all initiated by the client. The alternative may have been that the diagnosis was made following complications of the surgery, proving costly for both practice and client.



CAUTIONS

It is hard to make firm conclusions about models of veterinary practice that currently do not exist. Also, developments in human medicine may take decades to filter down to the veterinary profession, and not all may be appropriate.

What does seem clear is that the profession needs to engage in discussions with pet owners about the costs of veterinary care and pet health insurance, regardless of the individual model of veterinary practice.³



MISCELLANEOUS

ABBREVIATIONS

DNA: Deoxyribonucleic acid

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1.1. MODELS OF VETERINARY PRACTICE*Recommended Reading*

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