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Ensuring the Economic Future of Veterinary Medicine

# Update on Veterinary Demographic & Economic Trends

Karen E. Felsted, CPA, MS, DVM, CVPM  
CEO-National Commission on Veterinary Economic Issues

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## Before the Recession.....

- Veterinary care usage metrics declining in spite of increased pet numbers
  - Transactions per FTE veterinarian
  - Median new clients per FTE veterinarian
  - Median active clients per FTE veterinarian
  - Total veterinary visits
  - Veterinarian visits per pet
  - % of households with pets who visited the veterinarian
- Practice revenue up 7-13% (mean), 6-7.3% (median)
- Veterinarian compensation/take home earnings up

AAHA Financial & Productivity Pulsepoints/JAVMA/AVMA US Pet Ownership & Demographics  
Sourcebook/Advanstar

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## Significant Fee Increases Since 2004

- 76% of fees increased above rate of inflation from 2004-2006
  - 67% of anesthesia fees: 11-24% above inflation
  - 72% of treatment procedures: 6-22% above inflation
  - 60% of surgery fees: 8-54% above inflation
- Rate of increase slowed from '06-'10

AAHA Veterinary Fee Reference-5<sup>th</sup>, 6<sup>th</sup> editions

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## Bayer Veterinary Care Usage Study

- Identify causes for decline in visits and what can be done to reverse the trend
- NCVEI, Brakke Consulting, Ipsos-Forward Research, Bayer Market Research team
- University consultants—SMU, TCU, KSU
- Literature review, in depth interviews with veterinarians and pet owners, online survey >2000 pet owners
  - Statistical reliability:  $\pm 2.1\%$ ;  $\pm 3.0\%$  per species



Bayer Veterinary Care Usage Study  
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## Why Visits Are Declining

### Environmental Factors

Recession

Fragmentation of veterinary services

Internet Information

### Client Factors

Don't understand need

“Sticker shock”

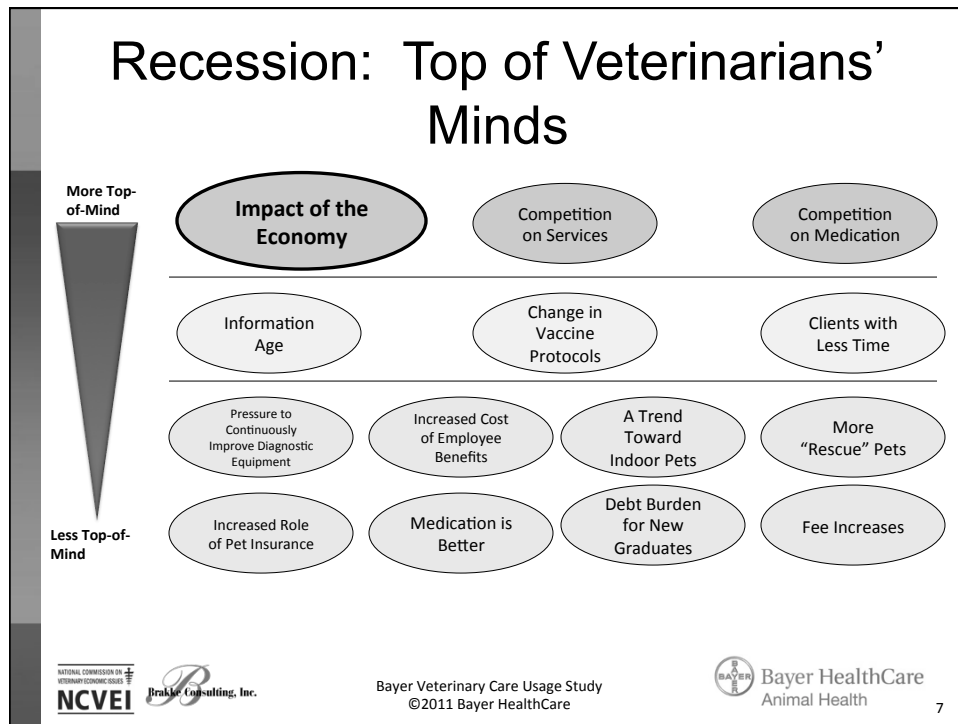
Feline resistance



Bayer Veterinary Care Usage Study  
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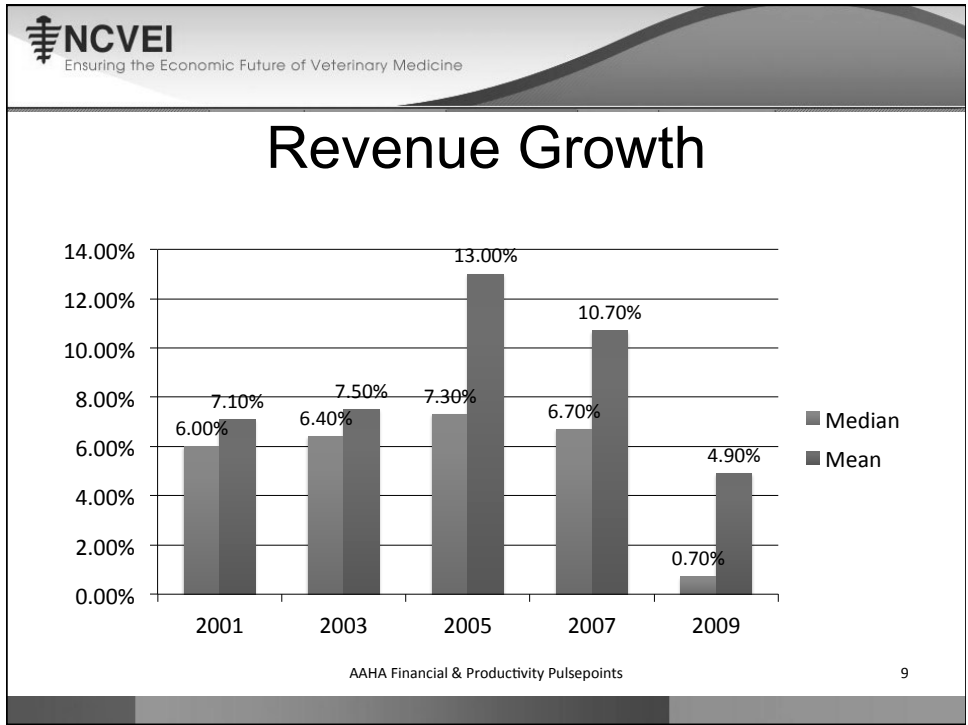
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## During Recession

- Continued decline in veterinary care usage metrics
  - Transactions per FTE veterinarian
  - New clients per FTE veterinarian
  - Active clients per FTE veterinarian
  - Patients per veterinarian per week
  - Total visits
- Decline in revenue growth/absolute revenue
- Softening in veterinarian compensation/earnings

AAHA Financial & Productivity Pulsepoints/AAHA State of the Industry 2010 Review/Advanstar

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**Practice Revenue 2010 vs. 2009**

	NCVEI	AAHA
• 2010 increased > 5%	27.7 %	32.5%
• 2010 increased 1 - 5%	26.6 %	25.0%
• 2010 was essentially flat	13.9 %	
• 2010 declined 1 - 5%	17.6%	21.9%
• 2010 declined > 5%	14.2 %	20.6%
• Overall increase 3.1%		

NCVEI QuickPoll Jan-Feb, 2011  
AAHA State of the Industry 2010 Review 10



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## Owner Compensation

- BWMP—Steady increase through 2006, declined each year since
- AAHA
  - Median—declined slightly in 2007, more significantly in 2009
  - Mean—slight decline in 2009
- AVMA—total private practice weighted average—steady increase through 2009
  - Decline in all categories except CAE

AAHA Compensation & Benefits/Benchmarks: A Study of Well Managed Practices/AVMA Report on Veterinary Compensation

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## Associate Compensation

- AAHA—steady rise through 2009
- BWMP—steady increase through 2008, associates with 11+ years of experience saw decline in 2009
- AVMA—total private practice weighted average—steady increase through 2009
  - FAE, Mixed, Equine saw declines in 2009
  - FAP, CAP, CAE saw increases in 2009

AAHA Compensation & Benefits/Benchmarks: A Study of Well Managed Practices/AVMA Report on Veterinary Compensation

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## 2011

- Appears brighter
- William Blair & Co 2011 Veterinary Survey
  - Expect positive growth 65%
  - Expect no growth 11%
  - Expect decline 24%
- Veterinarians in 2010 predicted similar results and it wasn't as good

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## NCVEI/VetPartners Final Profitability Estimator Results for 2009 & 2010

- Average 2009 profit margin 9.9%
- Median 2009 profit margin 10.3%
- >18% (Superior) 11.8%
- 16-18% (Excellent) 26.9%
- 0-< 8% (Poor) 11.4%
- < 0% (Negative) 13.3%
- 2010—10.74% average

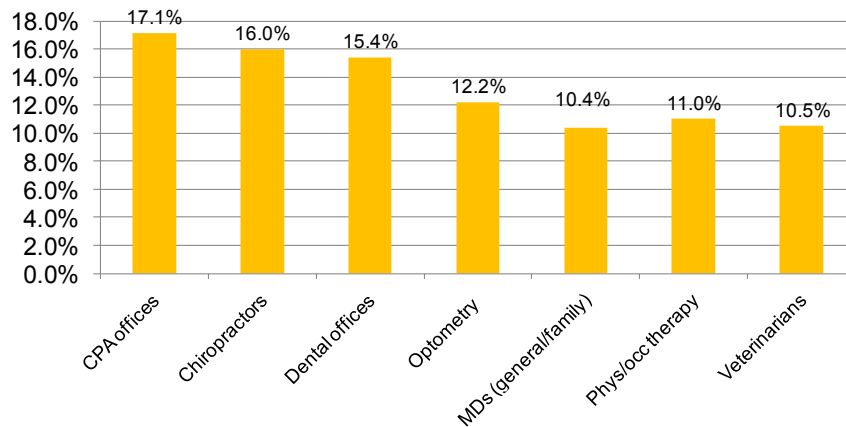
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## The New No-Lo Practice<sup>SM</sup>

- Variable characteristics but often occurs in practices with:
  - Progressive medicine
  - High numbers of staff
  - Above average compensation and benefits
  - State of the art facilities
  - Latest equipment
  - Focus on work-life balance and easy-going work environment
  - High revenue

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## Us Versus Them: Profits



"The Most Profitable Small Businesses"  
Forbes.com 4/15/10

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## End of the Recession Doesn't Solve All Our Problems

- Focus on customers or our customers' customers
  - Pets and pet owners
  - Quality care
  - Good medicine = good business

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## Banfield Pet Hospital State of Pet Health 2011 Report

- Data from records of:
  - 2.1 million dogs
  - 450,000 cats
  - 770 hospitals
  - 43 states

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## Canine Heartworm Disease

- ~93 cases/10,000
  - Unchanged in last 5 years
  - Diagnosed in all states but more prevalent in the South
    - MI, AR, LA—5.0-6.7% of HWT +
    - AL, TX, SC—2.1-2.9%

## Average Annual Doses of HWP Dispensed

	Dogs	Cats
1	8.5%	27.5%
3	5.5%	9.9%
6	32.0%	29.7%
12	36.8%	8.8%
Other	17.3%	24.1%

- Are they all given?
  - Broad range of adherence rates in human medicine
  - Few studies found rates greater than 80% and many were much lower.

## Flea & Tick Infestation

- 700+ cases/10,000 (canine)-2010 (16% increase since 2006)
- ~ 1200 cases/10,000 (feline)-2010 (12% increase since 2006)
- 6% increase in canine tick infestations
- Dx of Lyme disease has doubled in last 5 years—11,000 cases in 2010

## Average Annual Doses of Flea/ Tick Products Dispensed

	Dogs	Cats
1	19.9%	28.6%
3	14.0%	14.0%
6	29.9%	26.0%
12	10.3%	5.6%
Other	25.9%	25.8%

Adherence an issue here too

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## Diabetes Mellitus

- Canine: 17.5 cases/10,000—32% increase since 2006
- Feline: 64.3 cases/10,000--16% increase since 2006
- Obesity is a risk factor—top 5 diagnoses of dogs, top 3 for cats

Banfield Pet Hospital State of Pet Health 2011 Report 23

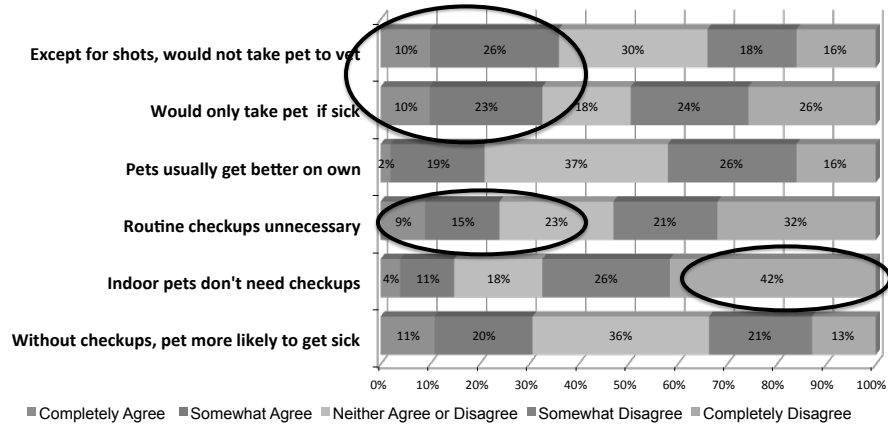
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## Dentistry Revenue

Organization	2001/2002	2008/2009
AAHA	2.80%	4.30%
AVMA	2.10%	2.40%
BWMP	2.20%	2.50%

AAHA Financial & Productivity Pulsepoints/Benchmarks: A Study of Well Managed Practices/AVMA Report on Veterinary Practice Business Measures 24

## Pet Owner Attitudes Towards Veterinary Care



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Praktis Consulting, Inc.

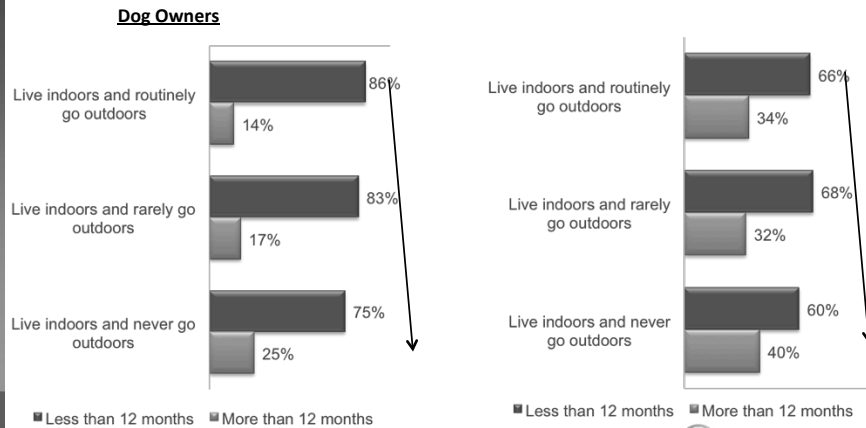
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## Perceive Indoor Pets Need Less Vet Care

### Cat Owners



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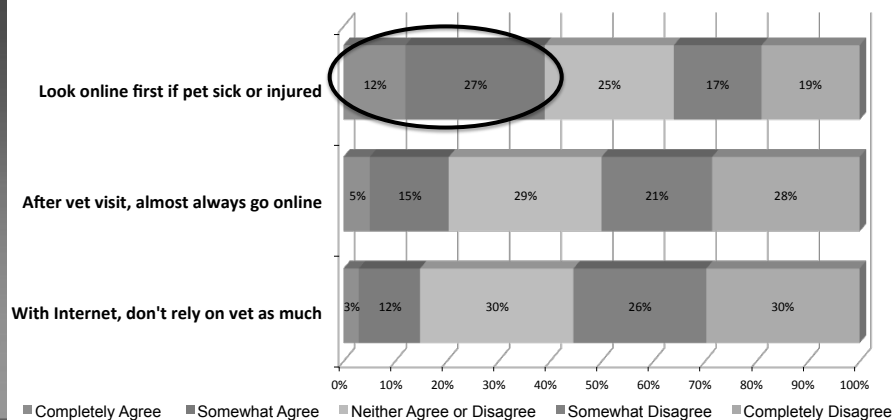
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## Impact of Internet Information



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## More Issues with Cats Than Dogs

- Cats visit the veterinarian less frequently
- Fewer cats have a primary veterinary clinic
- Cat owners more than dog owners:
  - Don't think indoor cats get sick
  - Don't think cats need veterinary care as they get older
  - Don't understand that cats can hide symptoms
  - Are comfortable with longer period between exams
  - Find visiting a veterinarian very stressful
  - Think their cat hates going to the vet

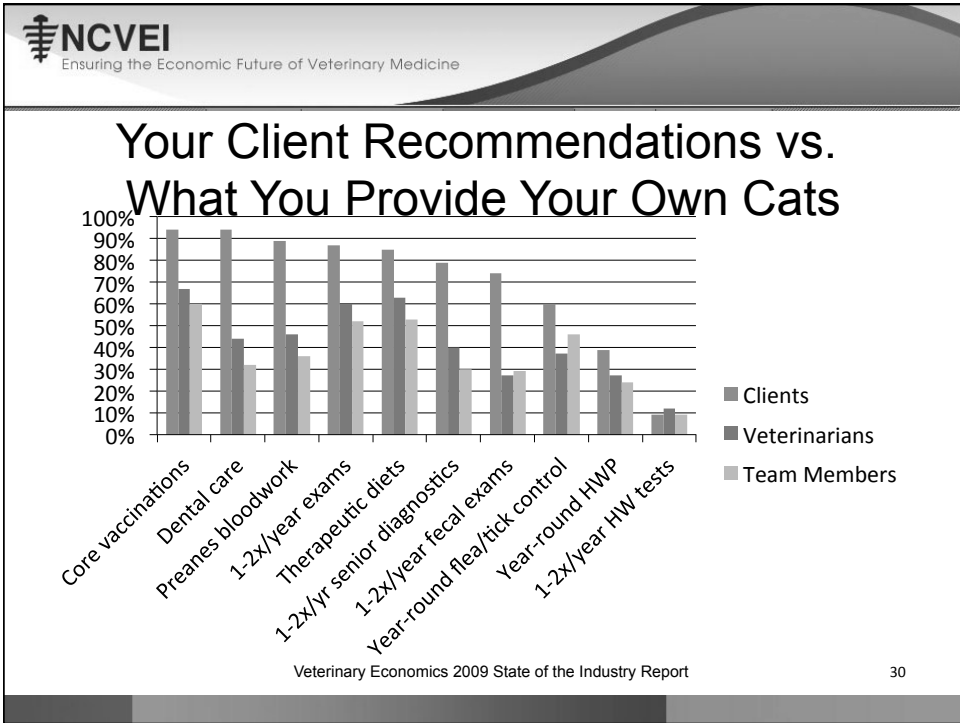
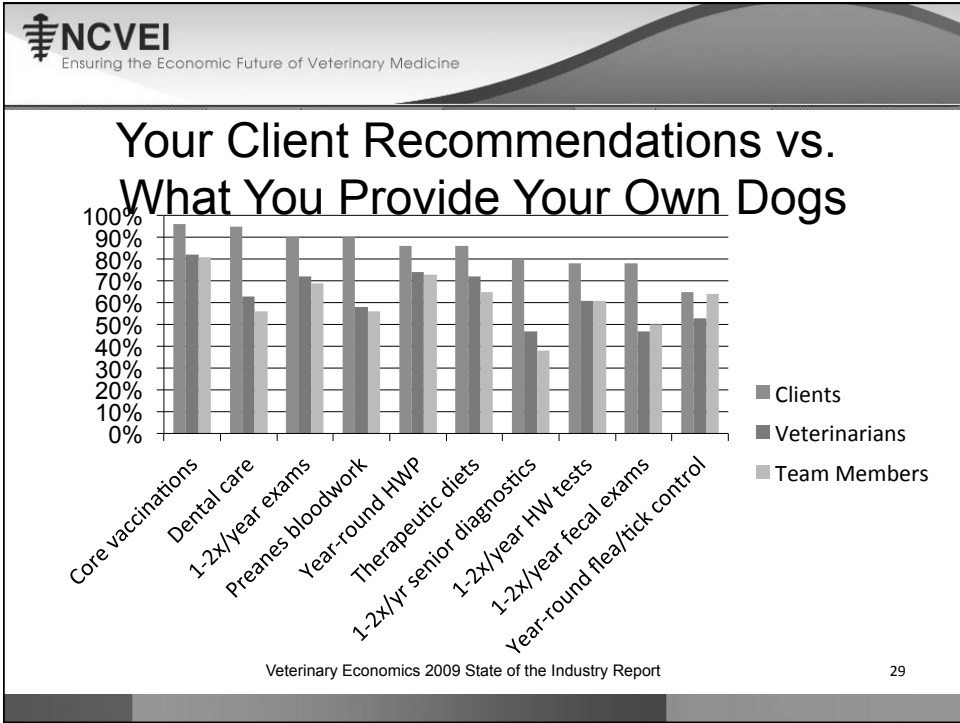
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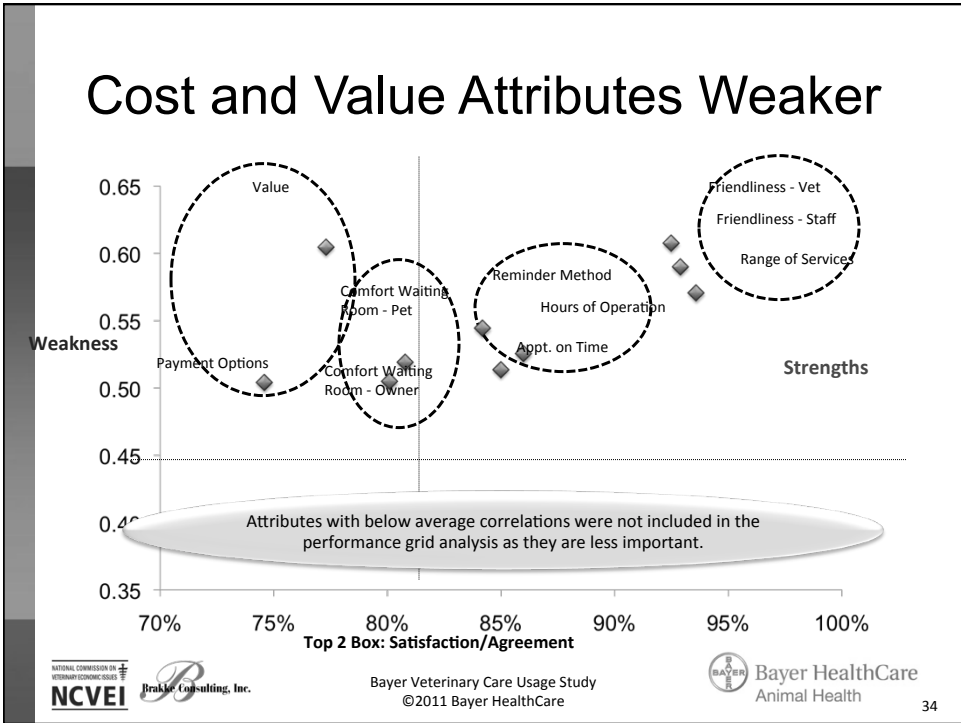
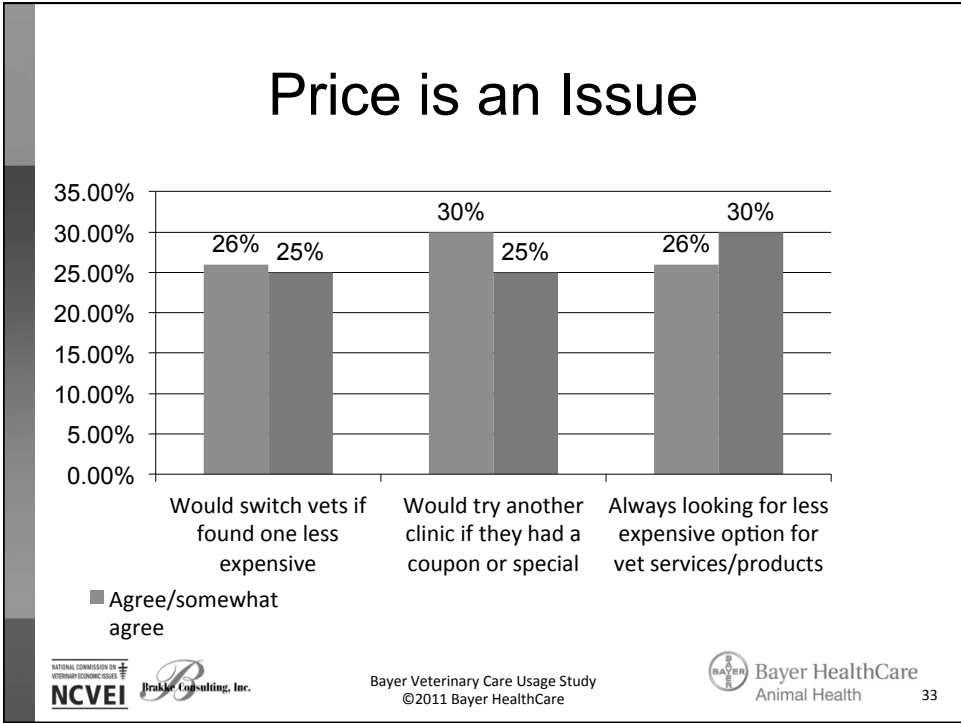


## Catalyst Council Survey of Veterinary Professionals

- 3.4%: "I don't think there's a good enough reason to provide my cat with medical care unless he/she is not feeling well."
- 29.3%: "I bring my cat in only when vaccinations are needed or if he/she gets sick."
- 63.9%: "I always bring my cat(s) in for annual wellness check-ups."
- 3.4%: "I feel the trip is so stressful on both of us that unless my cat is sick, it is just not worth doing that to him/her."

## Treatment Recommendation & Acceptance

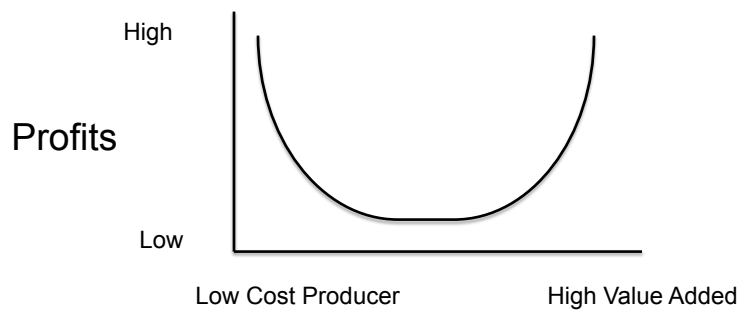
	2009	2007	2005
Audited medical records within last year for how often treatment recommendations were made when indicated	34%	22%	24%
Audited medical records within last year for rate of client compliance with treatment recommendations	33%	20%	23%

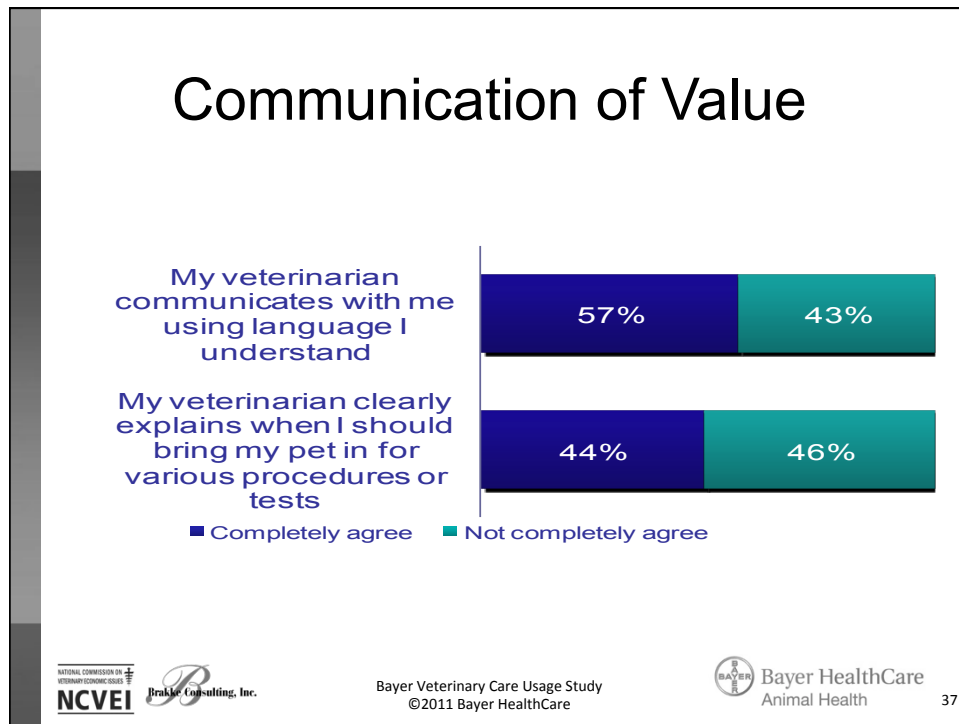



## Price is an Issue

- Absolute price and escalation
  - “All of a sudden, the price just skyrocketed. You could go when it was 60 bucks, now I can’t get out for less than \$150.”
- Three components
  - Absolute price
  - Value
  - Payment options
- No “one size fits all approach” to pricing
- Across the board large annual price increases aren’t a long-term viable strategy

## Veterinary Practice Niches






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## What Vets and Techs Are Saying to Clients

- “There is allergy testing if you really want to do that”
- “At some point you might want to get that done, just an FYI.”
- “If you decide to do this, the estimate is good for a year. Call the front desk to set it up”
- “You don’t do Lymes?” “Is that a shot?”

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## How Clients Judge Value

- Harvard Business Review on the Mayo Clinic: “When a company’s offerings are hard to judge, customers look for subtle indicators of quality.”
- Clients often can’t judge quality of medicine; they judge service

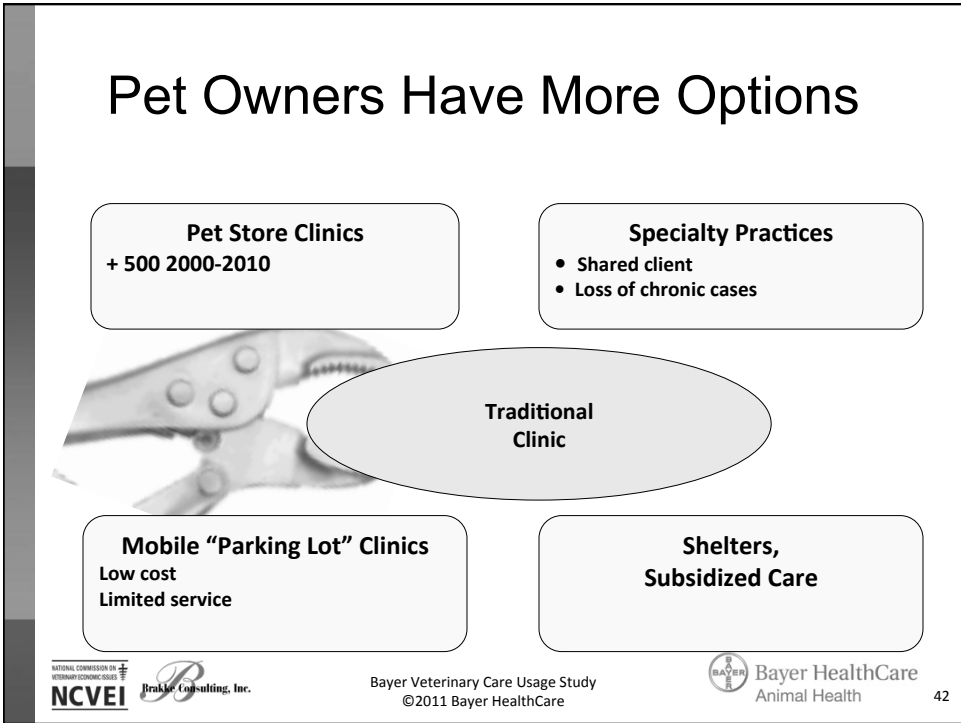
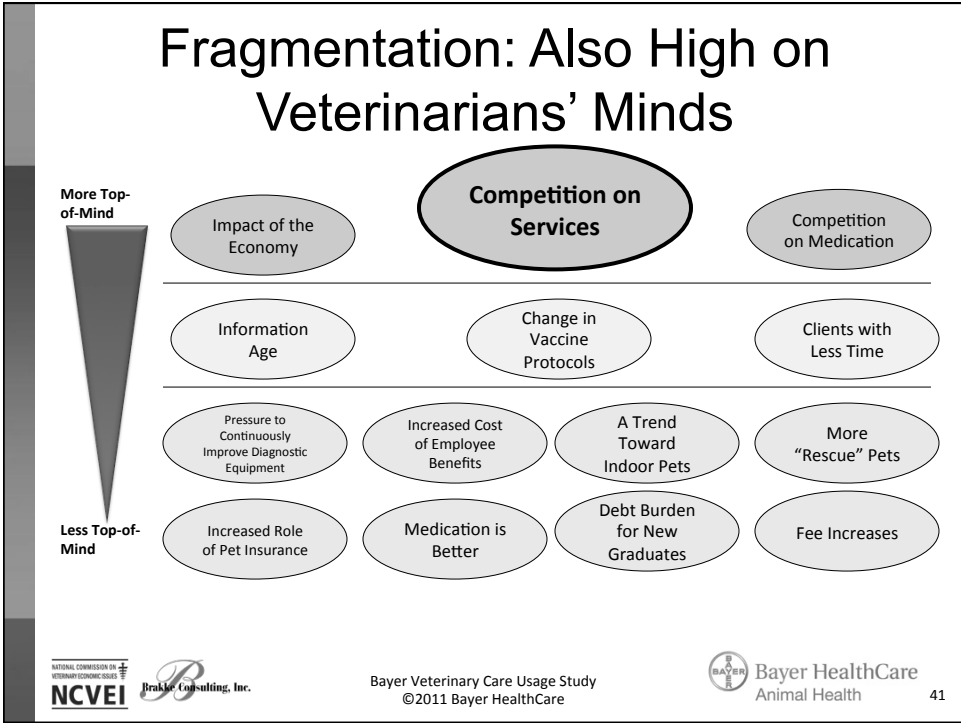
“Clueing in Customers”-Berry & Bendapudi-  
Harvard Business Review-2003

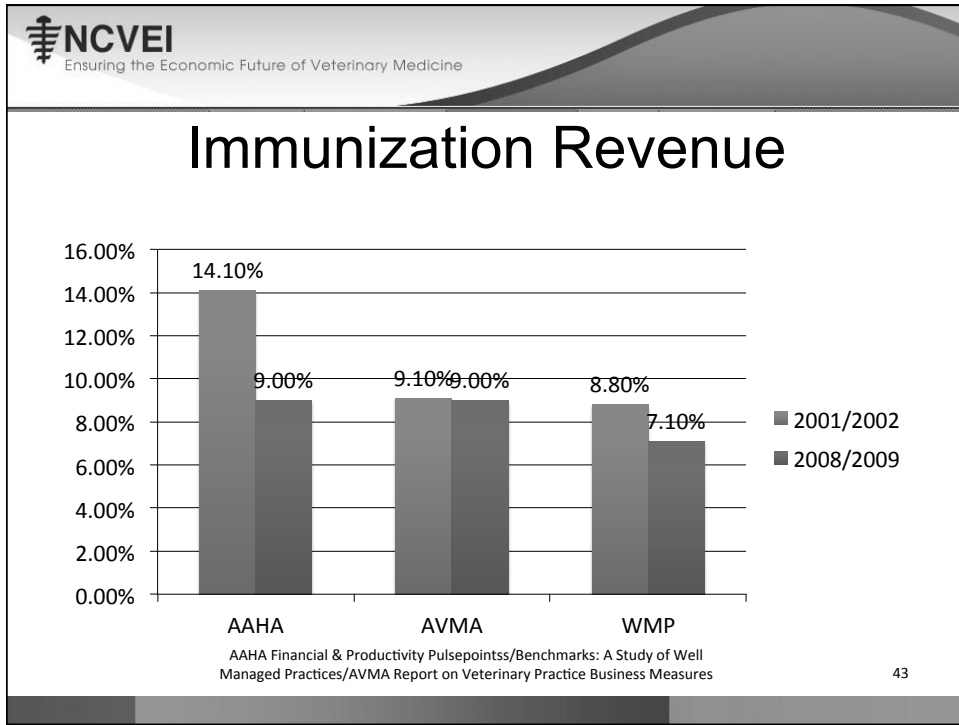
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## Payment Options Make a Difference

- 2006 VPI study showed company’s policyholders:
  - Had 41 percent higher stop-treatment levels
  - Scheduled 40 percent more veterinary visits
  - Spent twice as much on veterinary care over the life of their pets compared to non-policyholders
- 2010 CareCredit survey:
  - 71 percent of the firm’s cardholders said having a financing option affected their decisions regarding the level of treatment they provided their pets

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### Veterinarian Supply Growing Faster Than Pet Owner Demand

	1996/1997	2006/2007	%Change
Companion animal veterinarians	30,255	44,785	+48
Companion animal practices	20,170	22,393	+11
Dogs	52,922	72,114	+36
Cats	59,094	81,721	+38



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## Bringing Clients in the Door

- Profession-wide and practice efforts to educate clients about the need for care
- Communication of value about pet care and in the delivery
- More thoughtful pricing
- Focus on cats

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## Questions?

[kfelsted@ncvei.org](mailto:kfelsted@ncvei.org)

847-925-1230

[www.ncvei.org](http://www.ncvei.org)

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