

On Corporate Consolidation

By Joseph Marchell



What an exciting time for the veterinary field! Never has our quaint, but oh-so-romantic profession received so much flattery from suitors. Like the endearing neighbor girl, whose awkward, adolescent frame gave way to a strong, feminine elegance that all angles of light seemed in favor of. The suitors, previously unaware of her presence, caught a glimpse of her alluring beauty as the wind of the 2009 recession played with her dress, taunting investors with flat to low growth during a time when most industries were seeing substantial declines. Suitors have gathered in droves now, bearing riches, vying for whatever remains of the unassuming enchantress. An exciting time indeed, or has our industry shown too much?

Imagery aside, 25% of veterinary practices, representing half of all veterinary visits, are predicted to be corporately owned by 2023.¹

Consolidation isn't a recent change, either. Veterinary Centers of America (VCA), formed in 1986, purchased their first hospital in 1987. Today, they control over 800 hospitals.² The market really started to buzz in 2014 when Ares Management's purchased National Veterinary Associates for \$920m, a multiple of 13x its EBITDA.³ Other notable institutional investors have thrown money into the pot, too — Morgan Stanley, for one, and the fury has only grown. In September 2017 Mars Inc. purchased VCA for \$9.1Bn, an estimated 18x EBITDA.⁴ It's almost ironic that the more hospitals you buy at once, the more you'll pay for each one.

Historically, hospitals fetched 3x to 6x EBITDA. Once the cat had been let out of the bag, many small consolidators began to build regional groups hoping to flip them to national entities for a quick return on investment. Well, this sent individual practice prices through the roof and just in time for baby-boomer owners looking to make a clean exit to retirement.

Talk to enough practice owners and you'll learn of the headaches that come with one practice, imagine how many headaches Mars must have with over 2000 hospitals! Why do they then? Well for one, if one profitable veterinary practice is good, then 1000 profitable practices are 1000 times better. More importantly, they achieve greater economies of scale. Larger groups can reduce the overhead costs for things like marketing and human resources. They have whole departments dedicated to talent acquisition; They buy pharmaceuticals for less than the mom-and-pop practices.

Large organizations have a better division of labor, or specialization, that leads to employees who are more effective in their role. Consider this example, who's going to attract more new clients through social media?

- A. *Alison, the 27-year-old Marketing B.S. from Georgetown who handles the social media accounts for all Northeast VCA practices and her Frenchie, Maisy. Her single responsibility is social media. She gets a lot of practice.*

Or

- B. *Martha, the 61-year-old receptionist-technician who recently upgraded her Nokia flip phone to an "EPhone". She manages inventory and client records in between giving vaccines and placing catheters. Navigating Facebook is exhausting, and sometimes she responds to a private message as a wall post.*

The answer is clear. It's no one's fault, either. Single practices just can't afford to have an Alison on staff, VCA can.

Okay, but how will this affect early career veterinarians? For one, veterinarians, in theory, should spend more time practicing medicine and less on the associated chores—that whole division of labor thing. What about important factors like pay and level of medical autonomy, though?

In the short run, associates are probably coming out better off as large groups seek to expand hours and services at existing practices. To do that, they need veterinarians on staff and will pay a premium to have their spreadsheet numbers increasing quarterly. In the long run, consolidators are incentivized to keep



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payroll low, though. If I were sitting in the board room of one of these groups—and thank God I'm not—I would be lobbying for new veterinary colleges left and right. An increase along the supply curve of veterinarians would drive wages down. Viola, a workforce of highly skilled workers with loans coming due, desperate for work. Like I said, thank God.

Maybe I'm too cynical, though. Production based compensation is great for corporate groups because it takes a fixed cost, contracted salaries, and turns it into a variable cost. Many veterinarians are already compensated this way, so the status quo may just persist. Still, reports that consolidators slowly restrict the services that qualify for production and institute quotas that pressure veterinarians to sell unnecessary services has raised concerns of corporate abuse.⁵ Maybe improvements to efficiency and marketing will increase the volume of patients seen per veterinarian and negate the less favorable policies. Still, one suspects the job will become more demanding.

So, what does this mean for a young proletariat with bourgeois ambitions? Practice acquisition for the private buyer has become difficult. Desirable practices are targeted heavily by deep-pocketed consolidators and the private buyer has been priced out. But as doors close, new ones open. Technology has revolutionized the modern world. Modern entrepreneurs see traditional corporate structures as burdensome relics. Companies that heavily leverage modern technology can now accomplish as much as corporations with 20,000 employees could with a fraction of the labor. Advances in telemedicine, machine learning, artificial intelligence, and at-home care all threaten to upend the classic brick-and-mortar approach. Maybe this is when traditional models of practice ownership become obsolete like CDs for music, and cassettes before them.

Welcome to the 21st century. Things become obsolete the moment they hit the shelf. Large consolidators have placed a lot of eggs—Faberge's no less—in their baskets. It's all champagne and spa days until the guy who invents the carton shows up. Worse, he's got an app that lets you buy direct from local farms—delivered by drones in 4 hours, of course.

Nothing is guaranteed tomorrow, but one thing is for certain: The times they are a-changin'. Let's try to enjoy the ride; I know I will.

Works Cited

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