Post Consolidation – Back to the Future

By Leigh Kirk

I believe that the past few years have been the perfect storm for veterinary industry consolidation. The pros and cons of this depend on one's perspective: investor, acquirer, practice manager, veterinarian, or client. For the veterinarian, consolidation provides a choice between individual or corporate practice that didn't exist in the "James Herriot" era. Looking toward the future, I don't believe that consolidation is the end of that pendulum swing. New and emerging technology will provide a level of operational efficiency to independent veterinarians, enabling them to effectively compete with their big corporate counterparts. As a future veterinarian, I relish these choices.

On the heels of the dot-com and subprime mortgage industry bubbles and busts, the veterinary industry is an understandably attractive investment opportunity offering a safe stable investment with repeatable and recurring revenue streams and resulting easier liquidity.[i] Investment returns of the veterinary industry are an appealingly safe x3 compared to x6 for riskier industries.[ii] With a 2018, U.S. market size of $43 billion and an annual growth of 4.6% since 2013, (well exceeding the annual U.S. GDP growth rate of 1.46%), the veterinary industry looks like a safe cash cow.[iii]

The current state of practice consolidation seems to have reached a crescendo. In 2017, Mars Incorporated acquired all 800 VCA small animal clinics and hospitals for $9.1 billion, making Mars the world's largest veterinary health group.[iv] Mars also owns Banfield Pet Hospital chain, acquired in 2007. In 2017, KKR, a leading global investment firm, acquired all 125 hospital PetVet Care Centers for an undisclosed price.[v] In 2018, Capricorn Healthcare, a private equity fund, invested in WellHaven Pet Health, a new business roll-up of companion animal veterinary practices positioned as a Banfield competitor.[vi] These deals are a convincing barometer that the veterinary industry is now a financial target of Wall Street.

There are positive aspects of consolidation for all parties involved. For example, the veterinary sector provides better than bond returns at less than stock market risks for investors.[vii] And for an acquiring company, like Mars, industry consolidation provides growth through diversification.

Veterinary practices benefit from the corporate business model through significantly reduced costs from economies of scale, e.g., volume discounting on everything from medications, medical supplies, equipment and instruments, vaccines, office supplies, and IT equipment and services, and well as negotiated professional fees.[viii] And by standardizing business processes, operational efficiency may be enjoyed; likewise, quality of care may improve through sharing best practices.

For the veterinarian, corporate consolidation represents the ultimate opportunity to focus on the core competency of practicing medicine. In a "James Herriot" style practice eighty years ago, essentially veterinarians got to be veterinarians, and all the practice probably needed was a bookkeeper. In current times, prior to corporate consolidation, the independent veterinarian needed to be not only a veterinarian but also an accountant, tax advisor, information technology manager, human resources manager, marketing manager, and customer service manager! Or at least hire and manage such a business operations team. Beyond this, the veterinarian must look toward an exit for retirement. Corporate consolidation adds value in this area too.[ix]

Two potential negative aspects of consolidation are concerns regarding loss of control and compromise of patient care. I believe that the fear by the acquired company of losing control of decision making is not unique to the veterinary profession. Some loss of control is inevitable, otherwise, standardization and cost savings would not be achieved. Whether or not this translates into compromised patient care is an issue that has been debated.[x] JAVMA News reported the AVMA summarized members' comments from early 2010:

> "Some members believe that consolidated, 'corporate' practices are important to the future of our profession because they will allow more efficient care and use of advanced technology, whereas others believe they will compromise patient care in favor of the 'bottom line.'"[xi]

The veterinary profession must decide if (any) limitations or constraints on their ability to choose for their patient a test, medicine, or medical procedure, limits their ability to provide veterinary care as prescribed by the first principle of the Veterinary Medical Ethics of the AVMA:

> "A veterinarian shall be influenced only by the welfare of the patient, the needs of the client, the safety of the public, and the need to uphold the public trust vested in the veterinary profession, and shall avoid conflicts of interest or the appearance thereof."[xii]

Potential conflicts of interest are not unique to consolidated corporate practices. To suggest that small independent veterinary practice owners are somehow less concerned about profit undermines the idea of their viability to operate successful medical practices. If anything, a corporate divide between the business and medical operations can be conceived to offer a reduced conflict of interest regarding profitability concerns and patient care.[xiii]

If corporate consolidation is the first wave of industry maturation, I believe that current and emerging business automation technology is the second wave and will create a more level playing field of cost for veterinarians who wish to establish and differentiate their practices through their veterinary medical acumen and client relationships. Recent history has demonstrated that modern, agile technology, at the consumer and small business scale, can provide many or even more benefits and value than large consolidated legacy businesses. Examples include:

• Online and virtual banking, mobile payments, Artificial Intelligence (AI) Assistants (e.g., Siri, Alexa, Google Assistant), AI Support, Augmented Reality (AR) – all delivered on cloud platforms eliminate capital expenditures and the need to hire staff to implement and maintain. Think of how Amazon quickly catapulted over the world's largest retail corporations to become the largest seller on the planet!

• Mobile applications can eliminate 90% of human effort for routine administrative tasks and empower client self-service.

• Business Process Automation (BPA) solutions at commodity level pricing provide legacy value.

I may be a dreamer, but I can imagine a world where individual veterinarians have choice without compromise, whether to focus on their core medical competency in a corporate business setting or to be a modern "James Herriot" who can compete profitably if they so choose.

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