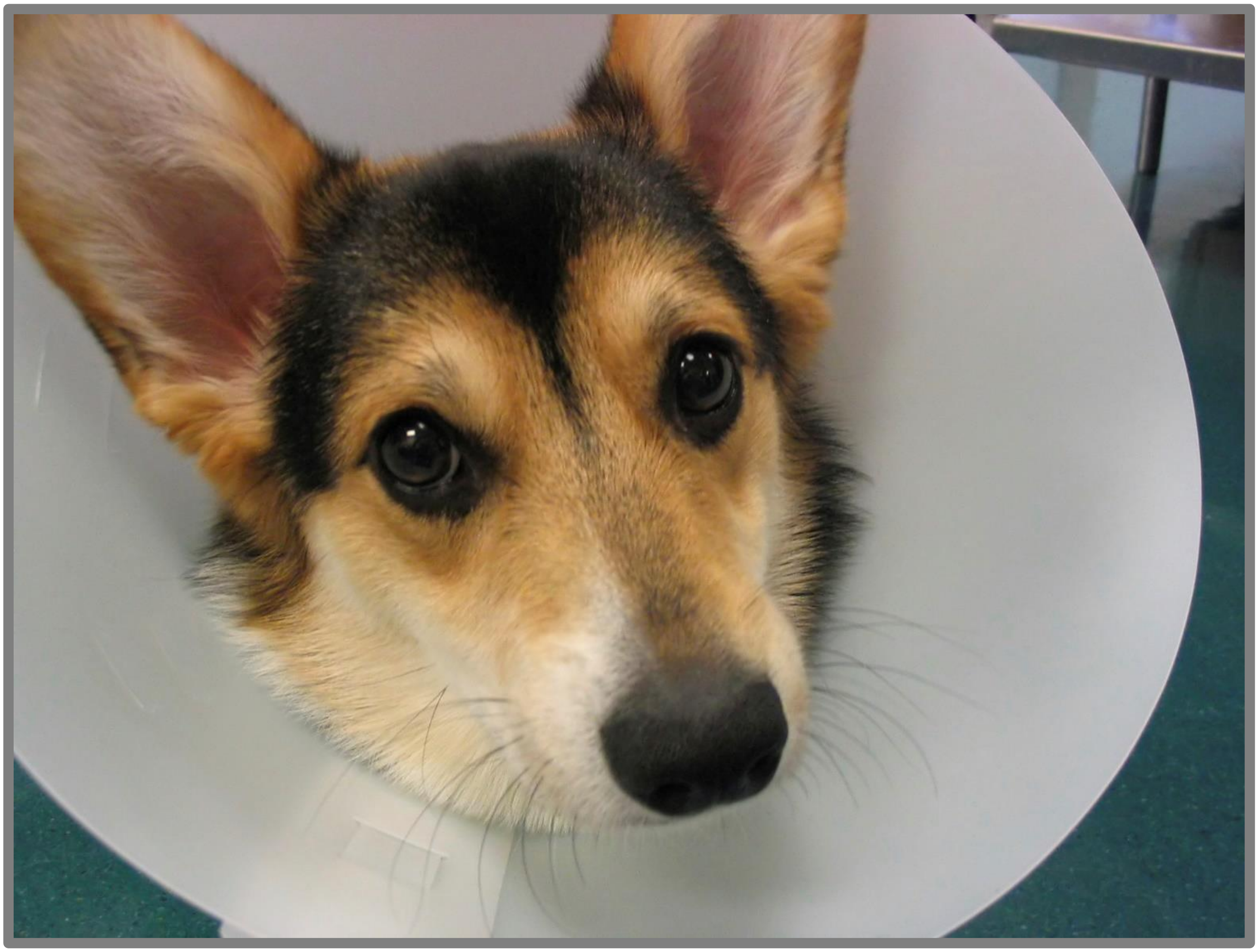

Is the Veterinary Profession Serving All Companion Animal Medical Needs in America Today?

A Case for Full-Service, Low-Cost, Non-Profit Community Veterinary Care Centers

The Boca Fund, Inc.
Bob Christiansen
Author, President
www.bocafund.com

the Boca Fund

This publication is FREE and produced for educational purposes. It is a fair exposé of the veterinary industry based on research in 2021. It's made available by pdf to all people who care about the health and welfare of companion animals. This material is intended to be used for teaching, news reporting, scholarship or research. It can be downloaded at www.bocafund.com

It appears the AVMA Economics Department has done their best to define and alert practice owners regarding these critical issues, but to no avail. It is the author's sincere hope the veterinary profession leadership acts to address America's unmet critical companion animal medical needs.

This report is dedicated to the memory of Kelly Farrell D.V.M., a humanitarian veterinarian who worked tirelessly to help tens of thousands of animals with her non-profit work in Roanoke, VA and Jacksonville, FL.

Other publications by Bob Christiansen: *Southern California Dog Owners Guide*, *Choosing and Caring for a Shelter Dog* and *Save Our Strays;* How We Can End Pet Overpopulation and Stop Killing Healthy Cats & Dogs

Executive Summary

Financial forces and technological innovation are separating pet owners and veterinary practices into have and have-nots. There is no doubt that America has the best companion animal veterinary care money can buy. Today's clinics have well educated, specialized practitioners offering high "Standards of Care" with the latest advancements in medical technology. Unfortunately, as excellence in the profession increases, so do fees. Fees for veterinary training and services have risen far beyond the market median, to a point that makes veterinary care not financially feasible for over half of America's pet households.

Veterinary clinics are for-profit businesses striving to be as profitable as possible. As independent businessmen and women, veterinary clinics set fees for their products and services that will bring the best return. Every year, over a twenty-year span, those fees have risen more than double the average rate of inflation for that period. This upsurge in veterinary fees has produced a gap between the pet owning households that can afford services (starting with household incomes over $60K) and those that can't.

Driving these excessive fees is a strong desire by leadership to have "economic viability" and compete with other medical practitioners (such as medical doctors and dentists) to attract the best and brightest to the field. In addition, higher practice salaries help mask excessive vet school tuition increases that produce poor debt-to-1st-year-income ratios (rather than Universities engaging in cost-cutting measures that reduce tuition).

The veterinary profession has a systemic ethnic and racial problem that is well past due for solutions. Ethnic nationalities are underrepresented in the profession; at the same time service to ethnic communities and their animal medical needs are lacking. Only 2% of all veterinarians are Black, 5% Asian and 5% Latino. Ethnic clients comprise about 10% of practice revenue, but 28% of households with pets.

The role of nonprofits in our communities is to fill a gap in services not otherwise provided by government or private for-profit businesses. Animal welfare agencies have learned through the ages that when fees create an "affordability" issue and those financially struggling owners do not obtain necessary services, an animal's welfare is threatened. Dogs and cats are abandoned leaving more animals on the street that endanger citizen health and welfare with bites and Rabies exposure. Sexually intact animals rapidly reproduce resulting in unwanted litters, the root cause of pet overpopulation. Eventually, animals without medical care suffer and die well before their time.

I conclude, after a thorough examination of the veterinary industry, that the medical needs of low-income and ethnic pet owners, those owners with little savings, living paycheck-to-paycheck, cannot be met by profit-maximizing, for-profit and corporate veterinary clinics. The needs of the subset of pet owners who are financially struggling, with little discretionary income can only be served by nonprofit, donor subsidized, full-service clinics targeting low-income pet owners.

This report is written as a "Call To Action" to fill the gap in the veterinary care delivery system that is not currently being met, nor ever will be met, under the current delivery system that exists in America today. America needs veterinarians — that are affordable!

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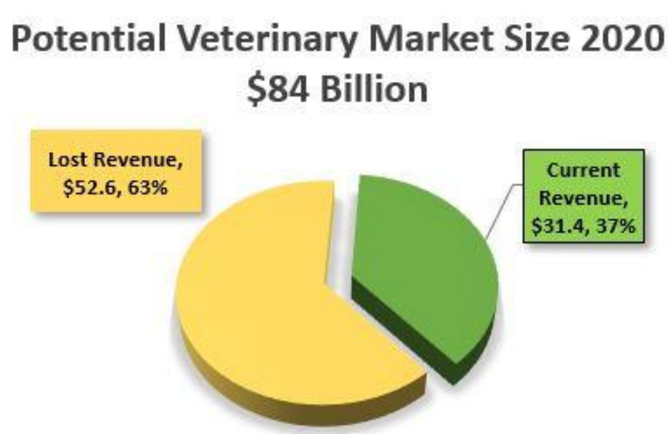
Market Analysis

The Companion Animal Pet Population

Source: General Social Survey (GSS) (Applebaum and Zsembik 2020)

Pet Ownership by Race	DOGS		CATS
White Households	41,178,014		25,074,880
Asian Households	1,136,699		617,280
Black Households	3,898,130		1,077,115
Hispanic Households	10,409,430		3,021,331
Other Households	203,634		115,214
Sub Total	56,825,907		29,905,820
AVMA Avg Pet Per HH	1.6		1.8
Total US Dogs / Cats	90,921,451		53,830,476
APPA Avg Annual $ Vet Visit	$700		$379
Potential Annual Spending	$63,645,015,700	+	$20,401,750,404
Total Market Potential for all Dogs/Cats Annual Spending	$84 Billion		
2020 Annual Spending	$31.4 Billion		
Lost Potential Revenue	$52.6 Billion		



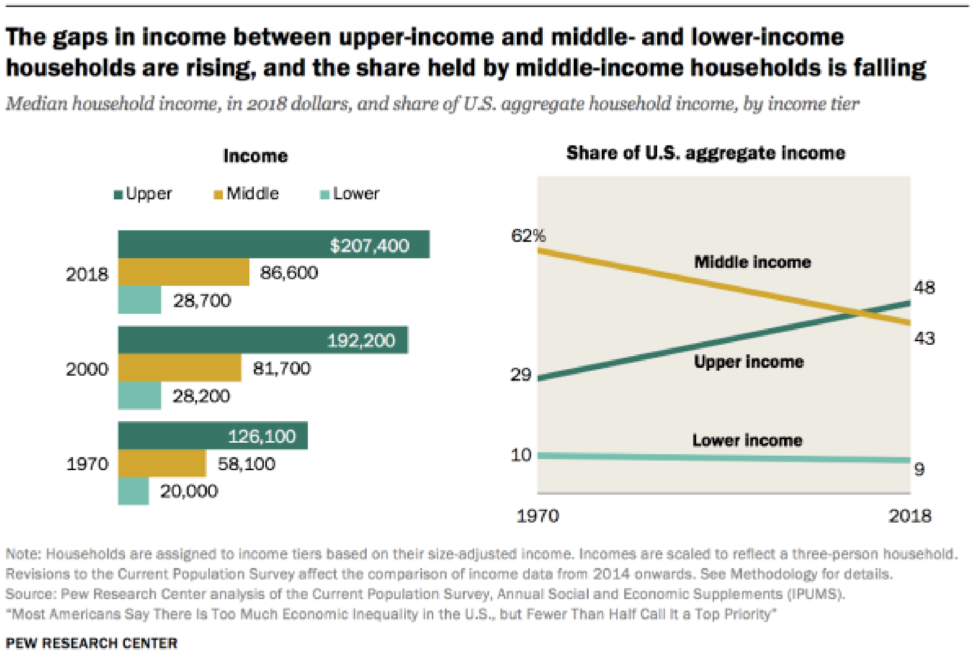
This pie chart represents a total market of $84 Billion with $52.6 Billion pet visits not being realized.

Section 1 America’s Income Inequality Crisis

How the Veterinary Industry is Affected by Income Inequality

“Most people who visit the veterinarian on a regular basis are upper-middle- and upper-class-income people, and that's a serious concern for the profession because that's only 40 percent of the population,”

— Michael Dicks, PhD, former Director of the AVMA Veterinary Economics Division



As the graph above illustrates, income growth has been rapid for the top 5% of households. The wealth divide among upper-income families and middle-and lower-income families is sharp and rising. Upper-income families were the only income tier able to build on their wealth from 2001 to 2016, adding 33% at the median. On the other hand, middle-income families saw their median net worth *shrink by 20%* and lower-income families *experienced a loss of 45%* (Pew Research 2020).

Most households, across various demographic groups, have very little savings or assets that they could use in the event of a financial shock. Overall, the typical household cannot replace even one month of income with liquid savings, and its total financial assets are equivalent to only about six months of income. In fact, although most people said they would use liquid assets, 41 percent did not have enough liquid savings to cover the $2,000 cost of the typical household’s most expensive financial shock (Pew Research 2020).

"Every household has a "market basket" of necessary goods and services that it purchases. If a household's income can't keep pace with increased prices for necessary market-basket items, discretionary items must go. Veterinary care is a discretionary spending item (Dicks and Maddux 2019)."

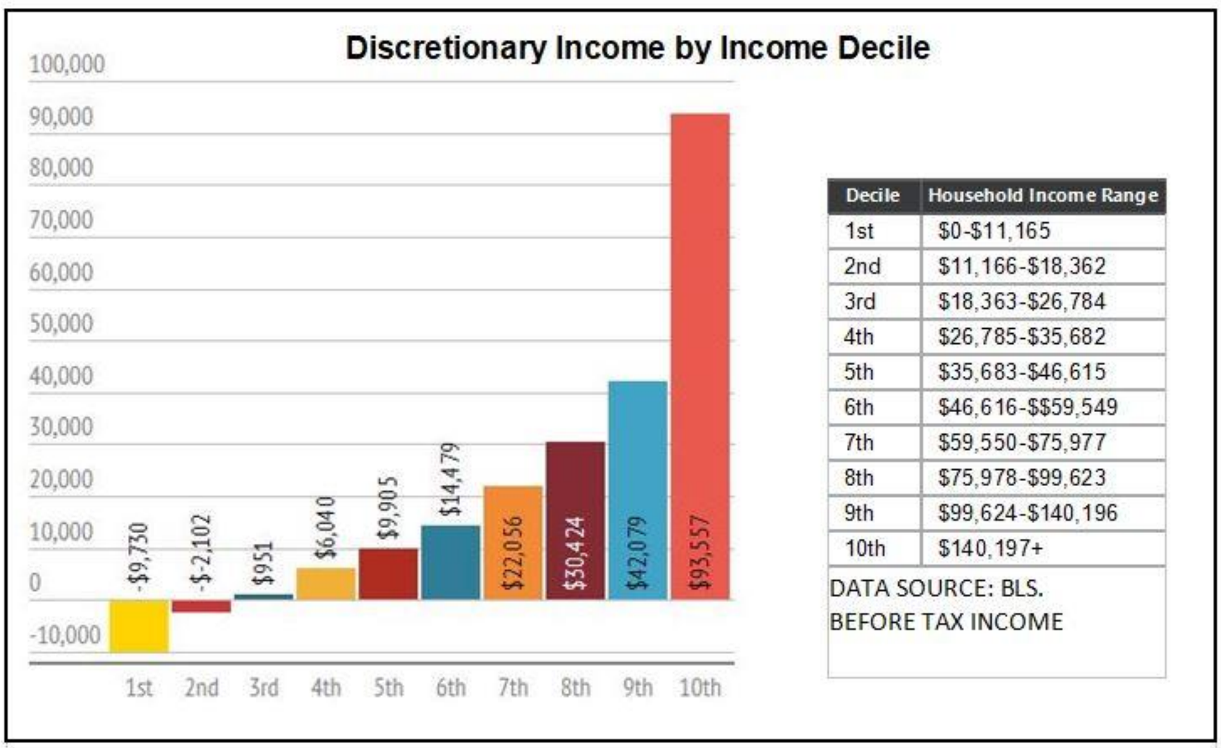
Veterinary Care and Discretionary Spending

> *Nearly 40 percent of overall consumer spending comes from the top fifth of earners — households that earn at least $120,000 a year. By contrast, the bottom 20 percent of households account for just 9 percent of all spending, and most of that goes toward essential needs including food, housing and transportation* (Washington Post 2021).

Essential household absolute need expenses are items such as; housing, taxes, transportation, medical care, utilities, groceries, loan payments, gasoline, phone, child care. These are absolute expenses you cannot avoid.

Discretionary spending depends on how much a person has left after paying for absolute and essential household basic needs. Discretionary expenses include; eating out, savings, entertainment, tv, movies, internet Wi-Fi, home furnishings, clothing, books, vacations, gifts, gym, hobbies, and veterinary care.

Obtaining a dog or cat and all expenses incurred to provide for that pet such as food, boarding, treats, equipment and veterinary care is considered a discretionary expense.

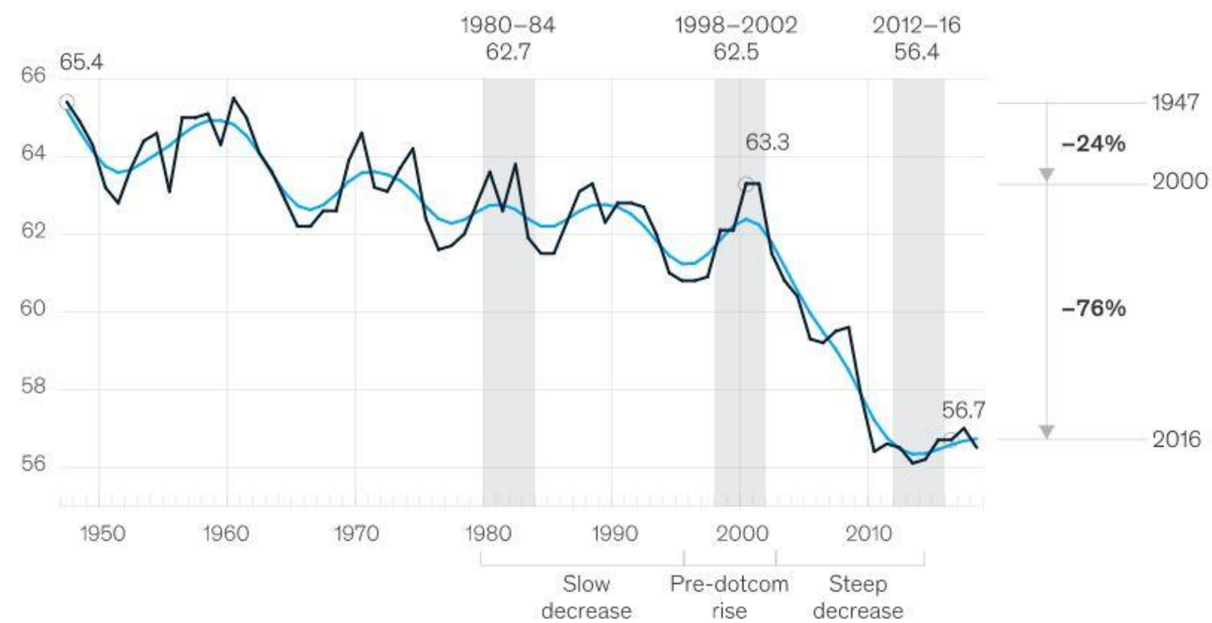


To better understand discretionary income dynamics, The U.S. Bureau of Labor Statistics (BLS) categorizes the American public into deciles (see chart above), or 10 equally weighted groups of income. When we break the data down into deciles, we can see how much high earners *skew* the data (Soffel 2018). For instance, almost 70% of American households actually have *less than* the mean discretionary income of $20,748. This helps explain why the average American family, with household incomes less than the 7th decile (with before tax income of $75,977/about $55,000 take home) has such a tough time affording veterinary fees.

According to the Hamilton Project, more than half of American families earn $60,000 a year or less. The report breaks it down even further, noting that 40 percent of families earn $40,000 or less a year and a remarkable 15 percent earn somewhere between $1 and $20,000 a year (The Hamilton Project 2013). *That means that half of American households, with little discretionary income, cannot afford basic or critical veterinary care.*

People of all income levels love their pet(s) and consider them "family members." The hard question for households with limited means is; when my pet needs medical treatment, do I bankrupt my household in order to treat my beloved pet, set them free on the street, surrender my pet to animal control or opt for "Economic Euthanasia?" There is currently a rise in Economic Euthanasia (USA Today n.d.).

A Decline of Labor's Share of Gross Domestic Product (GDP)

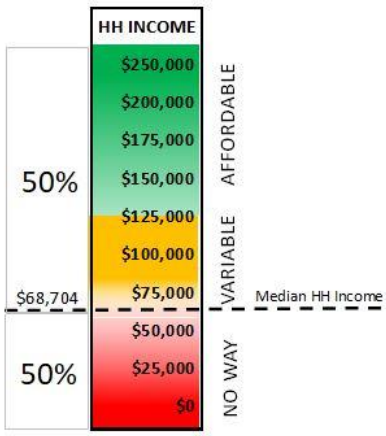


[1]Detrended using Hodrick-Prescott filter (restriction parameter = 6); adjusted for self-employed income (nonfarm business sector, 75% of total economy), from Labor Productivity and Costs database, Bureau of Labor Statistics.
Source: BLS (March 2019 release); McKinsey Global Institute analysis

Labor's share of income — that is, the amount of GDP paid out in wages, salaries, and benefits to workers has been steadily declining since 1947. The steepest part of the decline, three-fourths of the entire post-1947 decline, occurred between 2000 and 2016. This indicates a shift in income from labor (persons who derive income from hourly wages and salaries) to capital (persons who derive income via ownership of businesses, land, stock and assets).

This has raised concerns about income growth, inequality, and loss of consumer purchasing power that is needed to fuel demand for products and services. If wages and salaries–earned income–are a decreasing share of the entire economy, this means household spending power is eroding even when the economy is expanding.

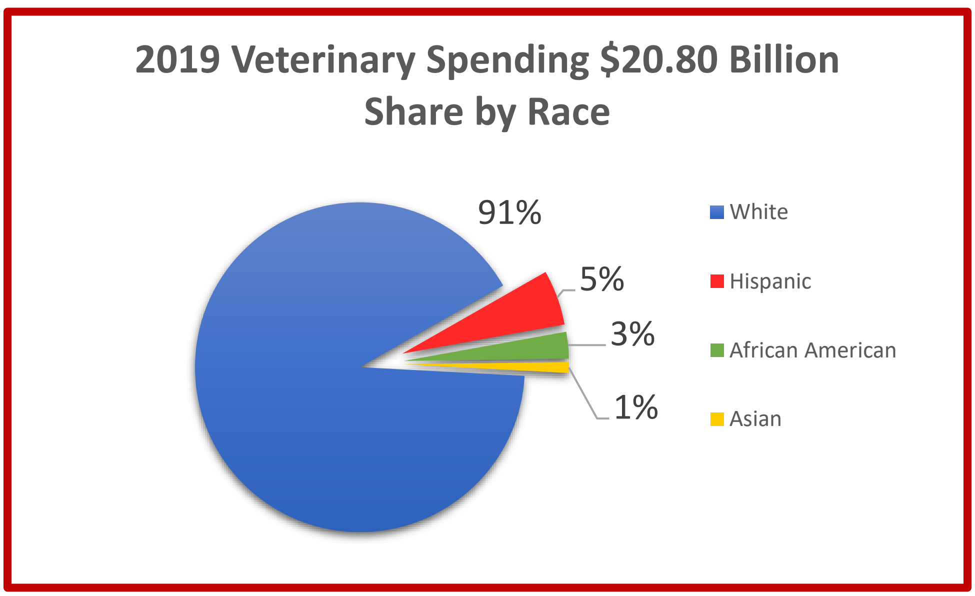
Wages Effect on Vet Visits



"According to 2017 Pet Demographic Survey performed by the AVMA, over 30% of dog owners in the lowest income category reported not seeing a veterinarian once a year. This percentage declines moving up the income ladder, with only 7% of dog owners in the highest income category of $100,000 or more reporting not seeing a veterinarian at least once a year.

Similarly, an income trend is apparent for price or affordability being the primary reason not to go to a veterinarian, with nearly 45% of respondents in the lowest income category stating that price or affordability is the primary reason they don't see a veterinarian at least once a year. This percentage tapers up the income ladder to 17% of respondents in the highest income category reporting that price or affordability was the primary reason for not seeing a veterinarian.

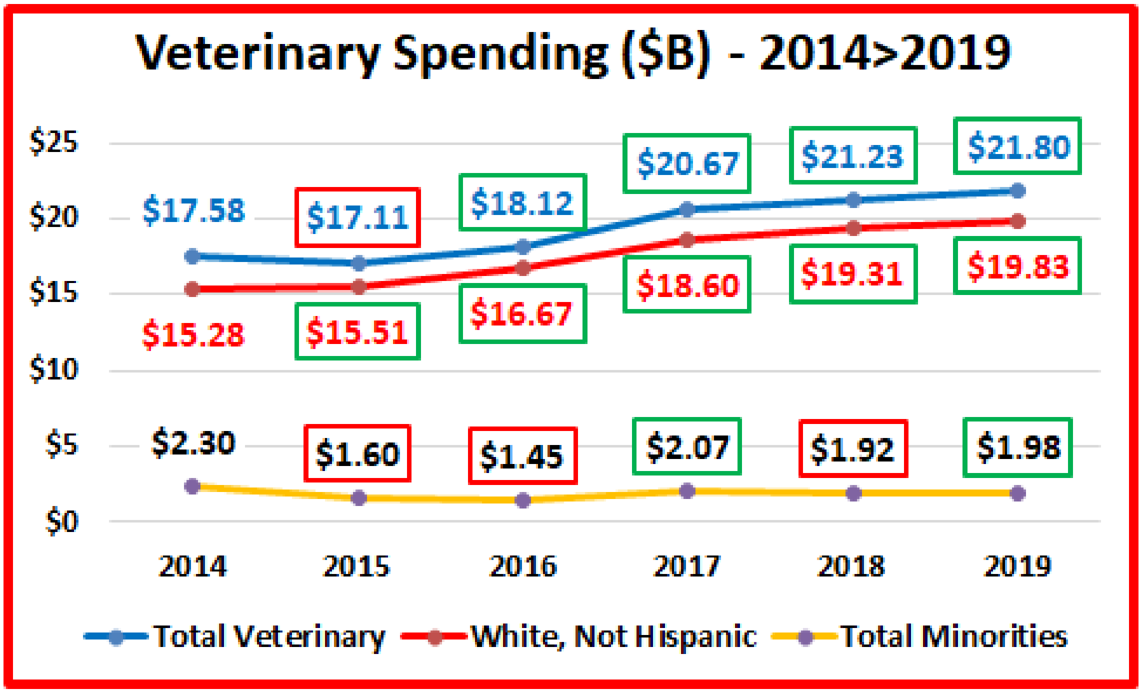
Access to Affordable Veterinary Care Ethnic Issue



According to Mr. John Gibbons, pet industry analyst "For years, Veterinary Service prices have had high inflation. This has resulted in client income becoming the most dominant factor in spending behavior and resulted in a reduction in visit frequency.

Consumers paid more, just used Veterinary Services less often. While ethnic demographic issues are not caused by the Veterinary Profession, their impact is clear. The situation of African Americans, Hispanics and Asians are a big problem both for our society and the Pet Industry."[1]

Ethnic Households Are Not Having Their Veterinary Needs Met



"The graph shows Veterinary Spending history from 2014 to 2019. Veterinary spending is a discretionary expenditure and a high inflation rate has made it more dependent upon income. Income matters, but rising prices affects all income levels. In the veterinary segment, some pet parents stop spending, some just cut back on the frequency."

Overall, from 2014>2019:[2]

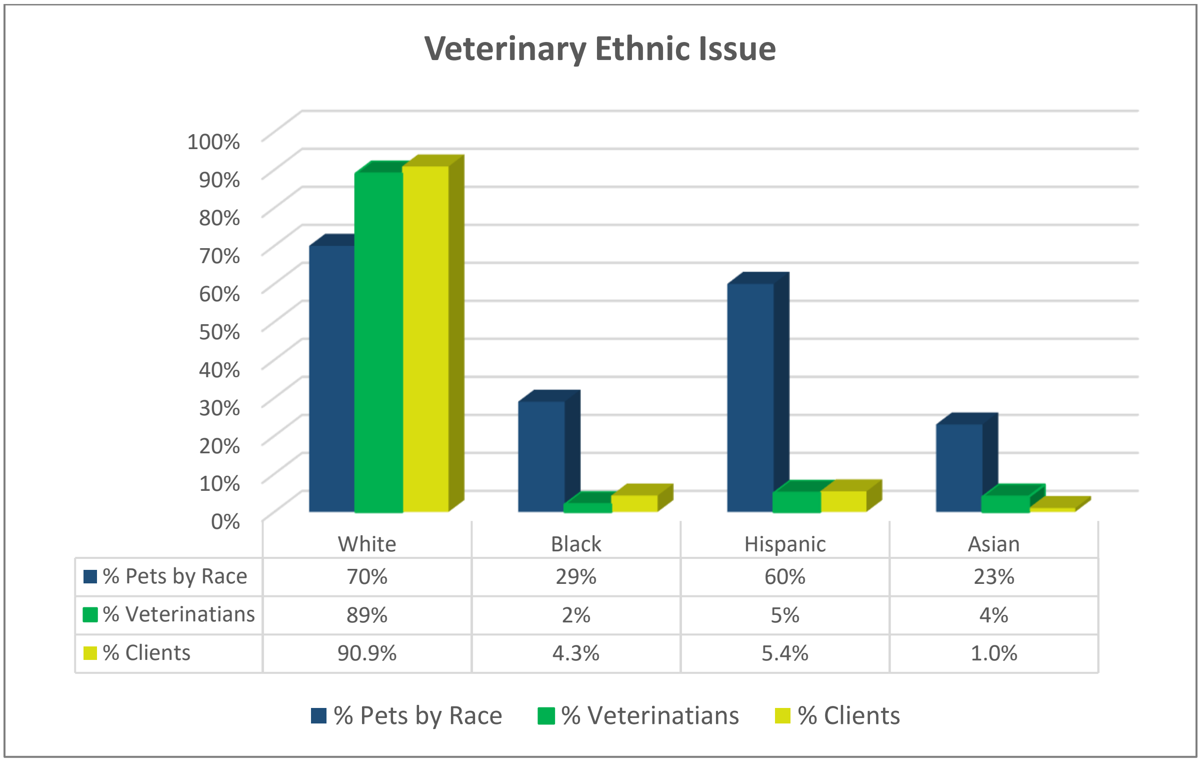
- "The White pet-owning population have a higher income and the highest level of pet ownership. The result is that they dominate the veterinary segment with over 90% of the spending.
- Price increases has resulted in a reduction in the frequency of veterinary visits since the great recession. Much of the segment's growth has just come from higher prices." – J Gibbons

[1] Ethnic population by 2030 will outnumber the white population. Will there be similar veterinarians of race to meet that demand?

[2] **Note:** All the numbers are calculated from or taken directly from the Annual US Bureau of Labor Statistics Consumer Expenditure Survey. John Gibbons, President A GPS for Pet Businesses"[2]

The Veterinary Profession — Where is the Diversity?

"The veterinary profession is described as a "white profession." To put it simply, diversity, equity, and inclusion is a human rights issue and an economic issue. The industry will flourish when pet owners can obtain services from people that look like them. But diversity is only part of the battle. It starts with equity in veterinary educational institutions." - Clinton Neill, Ph.D.



	White	Black	Hispanic	Asian
% Pets by Race	70%	29%	60%	23%
% Veterinatians	89%	2%	5%	4%
% Clients	90.9%	4.3%	5.4%	1.0%

Contrary to societal trends, veterinary medicine remains one of the least diverse professions in the United States. The profession's ethnicity is 89% White, 5% Latino, 4% Asian, 2% Black. While the pet household population for pets is 70% White, 60% Latino/Hispanic, 29% Black and 23% Asian (Applebaum and Zsembik 2020).

"Racial disparities within the pet-spending population indicate the critical importance of enhancing diversity in the veterinary profession. The lack of diversity in the veterinary profession has been reported and may in fact be restricting the availability of veterinary health care in communities of color through geographic or cultural barriers to access. Based on the decreasing probability for spending on veterinary services among the pet-owning subpopulation, it is apparent that veterinarians are not meeting the needs of an increasing proportion of the pet-owning population (Wolf 2008)."

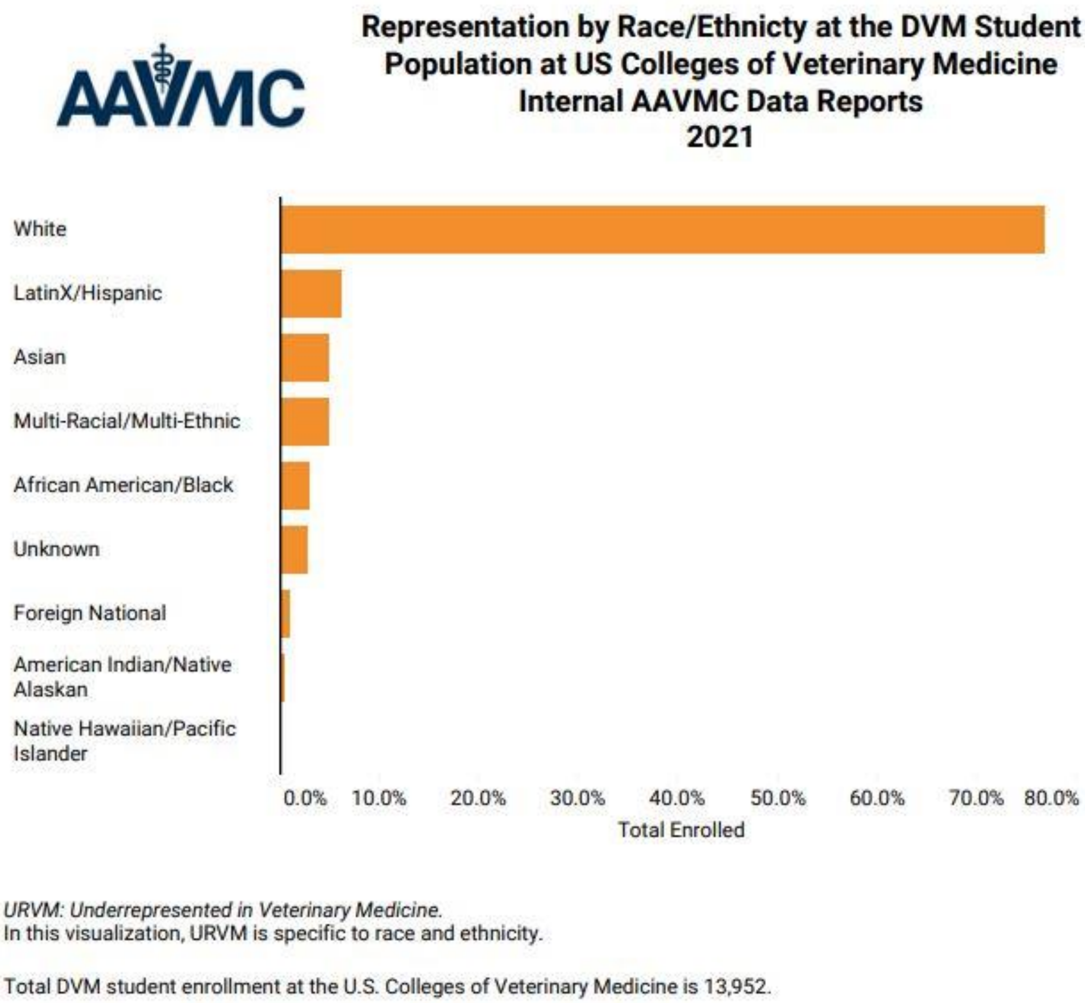
Over the past decade, the number of Hispanic pet owners grew by 44%. The non-Hispanic white pet owner population increased by only 2% during this period.

How Does Diversity Benefit the Veterinary Profession?

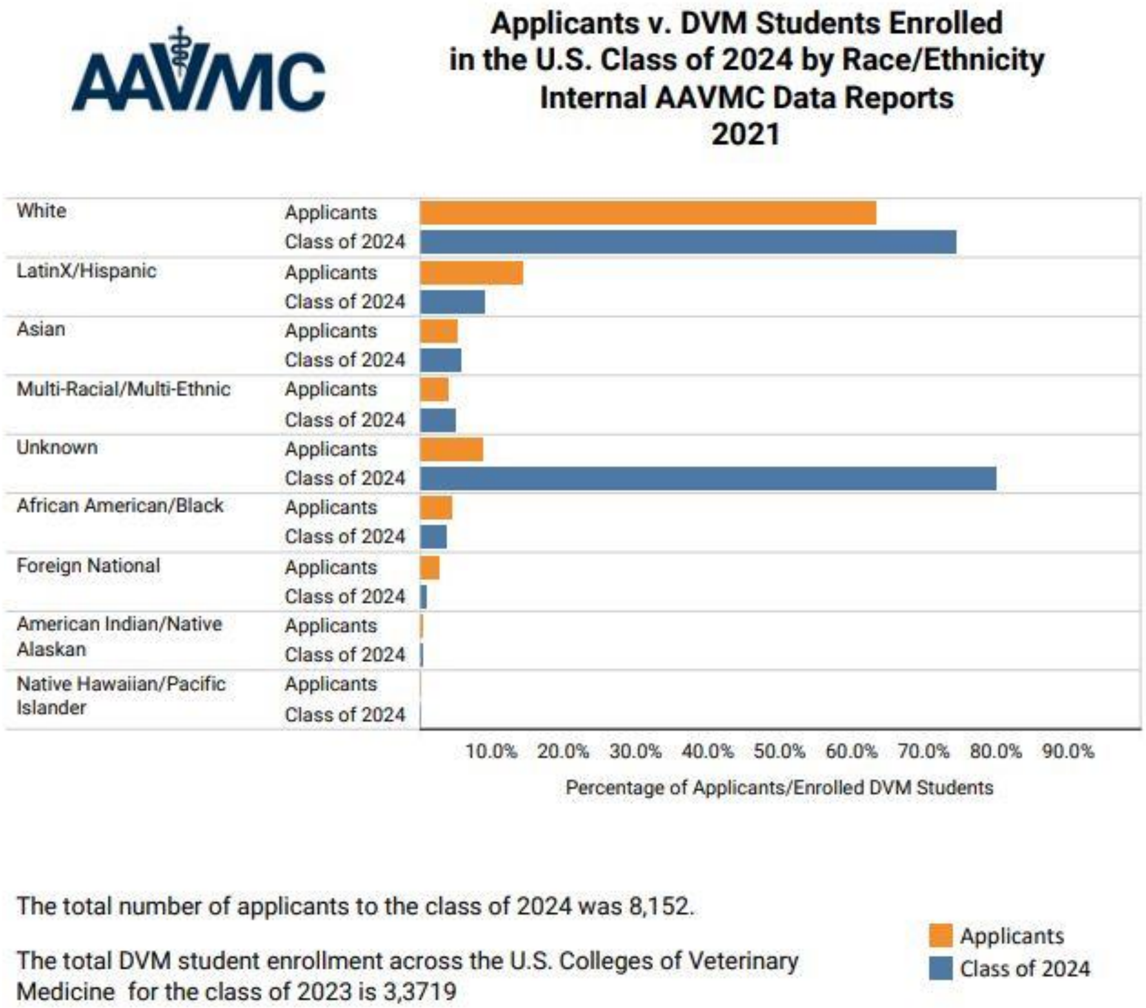
The need for diversity springs from a “moral belief to achieve social justice and modify historical inequality,” says Dr. Carlos Risco, DVM, DACT, the dean of Oklahoma State University's College of Veterinary Medicine in Stillwater. “Increased diversity improves access to healthcare in the United States in areas where serious ethnic and racial disparities exist. Increasing diversity in the veterinary profession helps meet the needs of a growing population of people who will become the profession's potential clients. Many people from minority populations prefer veterinarians with similar backgrounds, culture, language and appearance to them.” For a diversity program to be successful, he stressed “deans and other leaders must emphasize its importance and allocate financial and human resources to the initiative.”

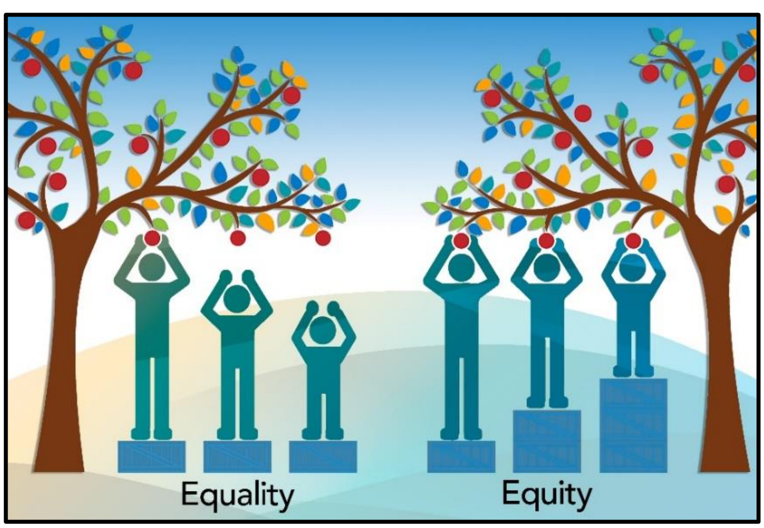
Veterinary Medical Colleges 2021-24 Race/Ethnicity Report

It appears that very little progress was made in the veterinary classes in 2021 regarding students of Race / Ethnicity in veterinary schools.



Or the class of 2024





It's a cycle of endemic racism. The numbers of racial/ethnic veterinarians are few and, as a result, have little chance to act as role models. Because there are few practicing veterinarians, racial pet owners are reluctant to visit practices. Racial/ Ethnic clients are seeking practitioners that look like them, speak their language and understand their culture.

Section 2 Prices

“Mainstream private practice veterinarians treat a smaller percentage of companion animals in our society each year, while providing more complex, advanced, and expensive medicine to a shrinking percentage of financially affluent owners.”
— Jeff Young, DVM Rocky Mountain Vet

Veterinary scholars have asserted that, in the 1970s, the ideology of James Herriot and his work, *All Creatures Great and Small* among others, inspired such a phenomenal interest in veterinary medicine that state legislatures were forced to build veterinary schools so their constituents could obtain a Veterinary Medical Degree.

Not that long ago, many veterinarians considered profit an unworthy goal. After all, they had a higher purpose: a calling to care for animals and prevent and alleviate their suffering. Profit was not a priority. As long as there was enough money to keep the lights on, things were fine.

Today, macroeconomic forces and technological innovation are splitting pet owners and veterinary practices into haves and have-nots, threatening the very existence of 1-2 doctor traditional practices and limiting pet visits by pet owners with little discretionary income.

Price Increases – A Premeditated Decision

Nothing affects client visits, practice revenues and profits as significantly as pricing.

The Current and Future Market for Veterinarians and Veterinary Medical Services in the United States (KPMG LLP 1999), (a.k.a. the “Mega Study”) was a seminal moment and a call to action in the veterinary profession. It forecast trouble if changes were not enacted regarding stagnant veterinary incomes that were not keeping pace with other professions and strongly recommended increasing prices.

Since the “Mega Study” was first published, the industry has never been the same. It was the fork in the road between the ideology of James Herriot and a strive for greater incomes.

"The findings in this study went a long way to establishing what, at the time, was a really important prescription around 'you need to raise your prices because you're leaving money on the table’, and ‘it's going to affect the economic sustainability of your practice and the profession'" Dr. Salois, AVMA current chief economist explained (JAVMA NEWS 2019).

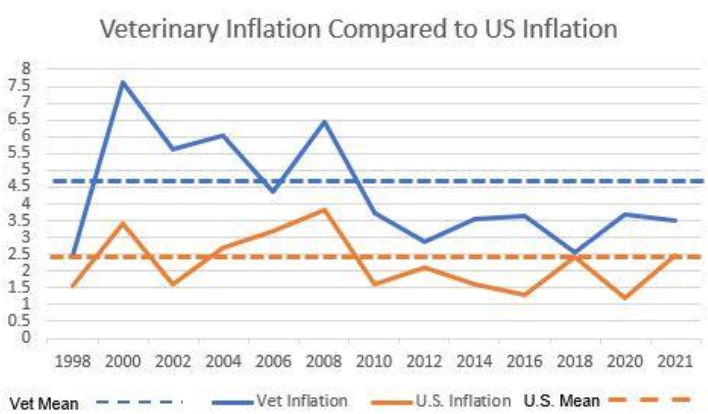
Veterinarians got the message loud and clear and raised prices on average 4.5% every year since, according to the Bureau of Labor Statistics. But suddenly everyone started wondering why client visits were dropping. According to the *AVMA's* chief economist in 2017, *Michael* R. *Dicks*, (M. Dicks, The market for veterinary services: cracks in the foundation 2019) “what we’re seeing is that when prices increase, consumers respond. Some will pay the higher prices, while others will buy fewer services, switch to a lower-cost alternative or eliminate the service from their expenditures. If the rising prices have a relatively small impact on the number of services purchased (inelastic demand), total revenue will increase. If rising prices have a large impact on the number purchased (elastic demand), total revenue will decline."

A "think tank" was soon convened and comments went like this: Dean Eyre of the Virginia-Maryland Regional College of Veterinary Medicine suggested that academe must "stop looking only at ourselves and talking only to ourselves and look to society's needs in order to improve outcomes and secure public trust." Another attendee, Dr. Brown expanded on this idea, saying that what needs to be done is actually a major cultural change within the profession, and it is imperative to move quickly or the entire profession of veterinary medicine could become "**pawns of big business** (AVMA JAVMA NEWS 1999)."

In 2020, Dr. Salois, AVMA's Chief Economist marvels at how the Mega Study is relevant 20 years later. "Issues identified in the study that are still front and center today include pricing strategy and income, escalating educational debt, veterinary technician utilization, practice efficiency, corporate practices, and opportunities for pet health insurance to play a greater role in veterinary care."[3]

Are Prices Rising Faster than the Rate of Inflation?

Yes, Ever Since the "Mega Study" Was Published in 1999



According to the U.S. Bureau of Labor Statistics, between 1997 and 2021 Veterinary services experienced an average inflation rate of 4.50% per year[4]. This rate of change indicates significant inflation. In other words, veterinary services costing $100 in the year 1997 would cost $287.38 in 2021 for an equivalent purchase. Compared to the normal U.S. inflation rate of 2.15% during this same period, the cost would be $164.31 (BLS n.d.).

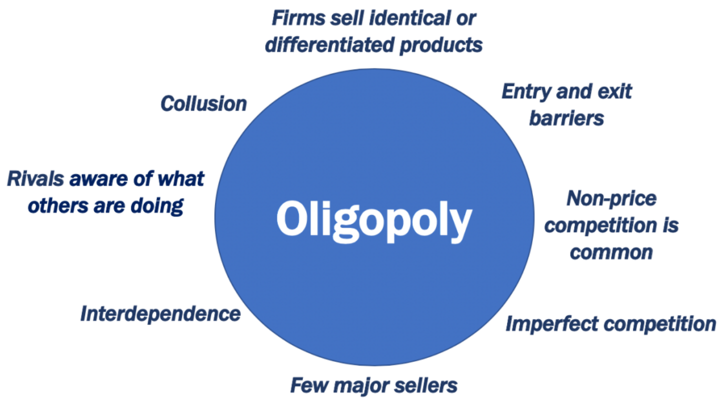
"The Veterinary segment is known for strong inflation (decline in purchasing power). The inflation had slowed in 2018, but it bounced back in 2019 with a rate of 4.14%, the highest rate since 2011 and 18% higher than human medical care (Gibbons 2020)."

[3] The only thing that has changed since 2000 was that prices were raised on average, 4.5% every year, faster than the cost of living

[4] Since they began measuring it in 1997, Veterinary prices have increased at a rate 35% faster than human medical care. – Pet Age

Factors That Contribute to Price Increases

1. **Veterinary Profession Leadership** There appears to be a strong desire to imitate human medicine without the prevalence of medical insurance (< 2% of all pets) and limited government financial involvement (Einav 2016).

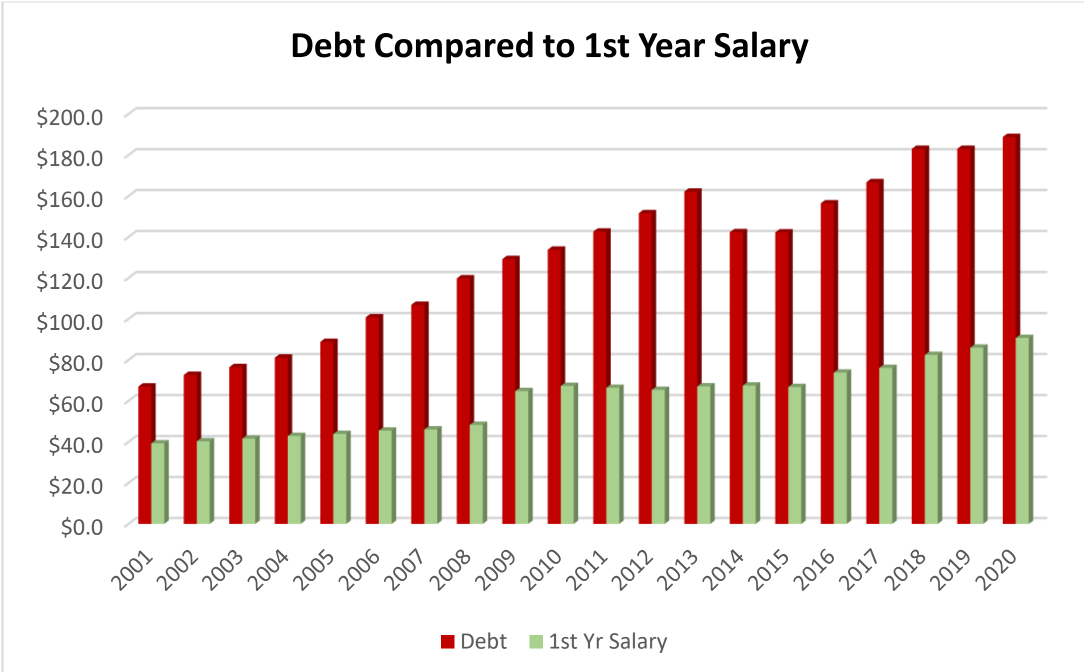


2. **The companion animal veterinary business is an oligopoly** (M. Dicks, The market for veterinary services: cracks in the foundation 2019).
   An oligopoly is a state of limited competition, in which a market is shared by a small number of firms that join together, either explicitly or tacitly, to set or fix prices within small degrees of each other in order to achieve above normal market returns. There is usually a price influencer(s) (AAHA Fee Reference) (The American Association of Veterinary Medical Colleges), rather than taking cues from market supply/demand analytics. Prices are thus higher than they would be in a more competitive market.
   In a more traditional market, buyers and sellers exert influence over prices in their region resulting in a state of equilibrium (when the supply of goods and services matches demand). However, in an oligopoly environment, major organization(s) have absolute control over the supply (in this case trained veterinarians) and price i.e. AAHA Fee Reference released into the market, allowing those businesses to influence prices.
3. **Veterinary School Expense**
   Limiting the supply of veterinarians drives price. Most medical schools are allowed to admit only a limited number of students each year, currently 3,200 regardless of demand. As a result, the supply is not equal to demand. It is constrained.
   Since the year 2008 the student cost for a Doctor of Veterinary Medicine degree has skyrocketed, more costly than other professional medical educations. Student net tuition as a percent of total education rose from 26% in 1990, to 30.1% in 2000, to 37% in 2010 up to 47% in 2017. Why? On the surface since 2008, universities have had less government financial support. The average state is spending $2,026 or 23 percent less per student than before the recession. To compensate for this loss, class sizes have increased, especially with higher-paying non-state residents. In addition,

universities increased prices by an average of 5.2%, higher than the cost of living. According to Michael Dicks, PhD and Director of AVMA Economics, “Because there's no relationship between public support levels and resident tuition rates at the various veterinary colleges, we have to assume that other factors explain the variation in veterinary education costs by college. For one thing, higher education governing bodies may not allocate state appropriations across public institutions equally. In addition, individual institutions don't necessarily allocate public funds across various colleges and programs within the institution equally either.
It's safe to say that, in general, declining public support for all public higher education has contributed to the rise in tuition over the past two decades. But the share of public support each state provides higher education has no relationship to the tuition and fees paid by veterinary students at the 25 publicly assisted veterinary colleges” (AVMA Dicks, M 2017).
Drilling down a little deeper on this issue, “states hoped that financial cutbacks would lead universities to become more efficient and reduce overhead. But it didn’t work. Instead of cutting costs, universities became more entrepreneurial,” according to Maggie Thompson, the executive director of Generation Progress.
Some universities began to enroll more full-paying foreign and out-of-state students to make up the difference.
U.S. colleges spend more on nonteaching staff than on teachers, which is upside down compared with every other country that provided data to the OECD (Ripley 2018)[5]. This is important because university administrators, not deans of veterinary colleges control tuition fees at vet schools (CEO Shares Perspective on Educational Debt n.d.).
But someone usually ends up paying. In this case, it is the veterinary client who eventually pays with higher prices to support higher salaries that eventually pay off student debt. Since 2006, the number of enrollments has grown on average more than 4% per year, while tuition has been rising by an average 5.2% annually, outpacing the Consumer Price Index.

4. **Student Debt-to-Income Ratio**
   Debt was manageable until 2006 when tuitions started to escalate.
   As you can see from the below chart, student debt to income was not much of a problem until 2006. It has grown every year since. In 2021, the average veterinary student debt averages about $183,000, with a high of $300,000 (ouch). Mean debt to income ratio was 2:1 with 20% of students graduating with a ratio of 4:1. According to many professionals, a “healthy” debt-to-income ratio is 1.5:1. Ideally, you’d want to borrow no more than the projected starting salary in student loans. The student debt-to-income ratio is a problem. So, rather than trim university budgets, as most businesses would do, they start accepting richer

[5] It appears that universities in America are incapable of reducing expenses like most businesses have to do at times. When compared to other nations per the OECD Organization for Economic Co-Operation and Development, Americans spend about $30,000 per student a year—nearly twice as much as the average developed country.



students who can afford to pay their own way. In 2020, one out of six veterinary school graduates that year reported owing nothing.

Is Vet School Worth It? According to Rob Bertman after quantification, “The purely financial answer is yes, vet school is worth it — but just barely (Bertman 2021).”

According to Dr. Lorimer, a Michigan State alumnus and boarded ophthalmologist “The universities think practices should just pay higher salaries, and practices think the universities should lower tuition. And the students are caught in the middle. ... I just think the system is broken (Lau 2021)."

5. **Practitioner Incomes** are the biggest part of rising fees and the focus of leadership. The cost of a client/patient visit is based on the veterinarian’s compensation. Time is money. The *mean annual wage* for private practice veterinarians in the U.S. has risen from $68,620 in 2000 to $92,570 in 2010 and $108,350 or $52.09 per hour in 2020, according to the Bureau of Labor Statistics. Vets argue that this jump is to correct an imbalance and keep up with other professional occupations.
6. **Lost Clinic Pharmacy Revenue** Until the year 2000, almost all pet medication was sold by veterinary hospitals. You visited your vet, and you picked up the medication on your way out. Vets controlled the treatment and the maintenance of the animals. And because of that they often controlled the dispensing of the drugs. With the introduction of online pharmacies in 2000. You started having companies like PetMed Express and others e-line companies enter the market.

According to Wendy Hauser D.V.M. in a statement to the FTC, “if small animal practices were to lose their pharmacy revenues, they would have to increase revenues somewhere else to make up for this loss and the most likely place for

this to happen is with the fees charged for services."
It was open season on pharmaceuticals. This resulted in a loss of gross revenue ranging from 10% to 20% at clinics. That's significant for a business! Online sales of pet medications continue to advance at the expense of veterinarians. Now big retailers like Chewy, Pet Care Rx, 800-PetMeds, Petco, Wal-Mart, Costco, Target, Kroger etc. have entered the market and use their quantity purchasing power to offer lower prices.
During the course of Federal Trade Commission (FTC) staff's research and interviews with industry participants, individual veterinarians claimed that pet medication sales comprised anywhere from 15-30% of their practice revenues, with the majority hovering around 20% (FTC 2015).

7. **Specialization within the Veterinary Profession** Veterinary medicine has evolved from the barnyard art of treating animals to a sophisticated practice of medical and surgical science by highly trained specialists with advanced degrees using modern technology. The Veterinary profession is on course to emulate human medical specialization. Just as human specialists are more educated and expensive, so also are the fees for veterinary specialists.
   Many clients are sent to after-hours, 3rd party emergency clinics when medical events happen late at night, X-rays get sent out to veterinary radiologists for consultations, tissue and blood samples go to 3rd party veterinary labs and pathologists, Ultrasound images are read by 3rd party specialists[6]. Many corporate consolidators own the majority of specialty clinics.
   The point is that when clients spend money on specialty care they are left with fewer dollars to spend with their general practitioners (Aspros 2019).
8. **Supplier Fee Inflation** "The inflation rate for medical practice supplies is thought to be much higher than the inflation rate quoted by the US Government, about 6.5%."
9. **Decades-Old Pricing Methods** While veterinarians embrace the latest science, medical advances, and technologies in practicing medicine, many veterinary practice owners and managers continue to retain traditional, outdated, and decades-old pricing methods.
10. **No Marketing Segmentation** Pricing methods in the veterinary services industry typically do not use marketing segmentation methods to deliver differentiated value to different groups of customers (Spectrum of Care). Instead, they see the entire customer base as one single segment (e.g., everybody that owns a pet is a potential client). They are all treated with the same (Gold Standard) of Care.[7]" (Dholakia, Utpal VHMA 2018)

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[6] Veterinary medicine is on the path to duplicate human medicine without the benefit of insurance or government financial assistance.

[7] The Gold Standard of Care has been taught in Veterinary Colleges for decades. Most practitioners are afraid to deviate from that standard for fear of losing their license.

Elastic, Inelastic or Income Elastic Price Demand?

For decades practice owners have been told that client demand for veterinary prices are inelastic. Inelastic means demand for goods or services is relatively constant even when the price changes, similar to utilities, gasoline, food, etc. Fees are really "income elastic," meaning demand for any good or service *is relative to the consumers household income*.

Prices – How High is Too High?

No matter what the veterinary profession wants to charge for veterinary care or think they deserve to be paid, the ultimate decision is made by pet owners based on the price/value they see in the services provided.

1. **Spending is most often relative to income**.
   Different people make and have different amounts of money. As a result, spending, like many other financial behaviors, is not an absolute concept. It depends on how much money households make.
2. **Spending for most reasonable people is within a budget**. People have a sense of what is normal to maintain household financial welfare.
3. **Spending usually falls within a consumer's perceived reasonable price range**. Consumers have a range of reasonable prices for what a product is supposed to cost. If a product is far above the range of perceived reasonable prices, it is seen as exorbitant and spending on it is seen as extravagant.

The financial objective for most practices is to maximize profit. The way to accomplish that goal for veterinary practices over the last twenty years has been to raise prices higher than the U.S. rate of inflation. However, "*raising prices improves the clinic's gross income only if the increase in net profit exceeds the value of lost sales due to the price increase*. Put another way, how much can you raise prices before clients choose less product or service (wellness) and/or just stop coming (M. Dicks, The market for veterinary services: cracks in the foundation 2019)?"

Practitioners are often faced with a conflict between a desire to improve an animal's welfare, relieve it's suffering and the clients' inability to meet the ever-increasing fees for veterinary care. A disconnect can arise between pet owners and veterinary teams when clients don't understand the value and benefit behind the medical recommendation and when they are financially unable to accept or provide "informed consent."

More troublesome is the emotional toll it takes on all concerned when pets fail to receive needed services. Most veterinarians and team staff members enter the profession to help animals and make them well. Declined recommendations creates ethical conflict and moral distress, causing psychological distress and a poor sense of well-being. When these conversations happen frequently, staff members question the reasons why they chose the profession (Moses 2018).

Please Care for Me

Section 3 Veterinary Profession Today

How do we make veterinary care affordable while also keeping clinics profitable? That is the age-old economic question- Clinton Neill, Ph.D.

The veterinary profession directly or indirectly affects nearly everyone in America today. The profession provides for the medical health and well-being of both farm and companion animals. About three out of every four households own a pet, with rural areas owning proportionally more than urban areas. The economic health and viability of the veterinary profession is crucial to Americans and our animals.

When it comes to companion animals, society relies on the veterinary profession to meet our animal's medical needs — in theory. In practice, to effectively meet those needs there must be client compliance along with financial resources to pay for these goods and services. Practitioners don't set fees. Fees are the domain of clinic owners or corporations. In a normal world, fee increases are pegged to the cost-of-living (Inflation) index. Clinic fees go up, but so do household wages respectively. Since 2000 veterinary fees have almost doubled the CPI index or cost of living, driving services out of range for almost half of the pet owning public.

In 2020 there was a total of 118,624 veterinarians in the U.S. with 65% being female, 35% male. Soon the profession will be 75/25. About 57,360 or 78% work in private clinical practice with companion animals. The average hospital has 2.5 veterinarians working with 5 techs and 3 support staff. 84% of applicants to vet schools are female.

More than half of U.S. veterinary practices are one-to-two doctor practices while 20% are part of firms with more than 100 total employees (VetSuccess 2018).

Veterinarians

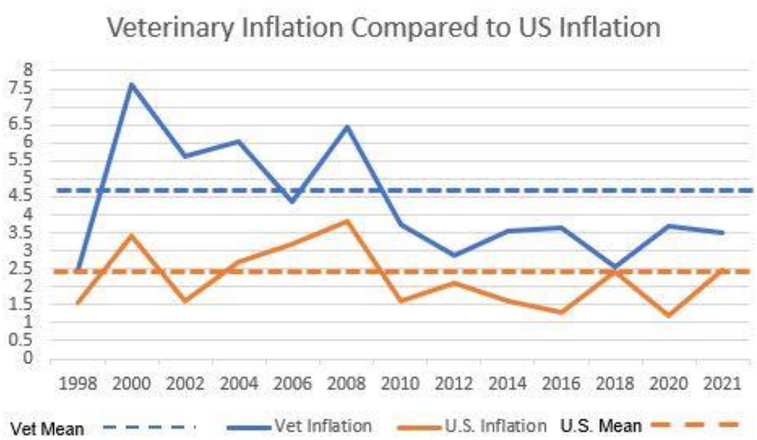
There is a big distinction in the veterinary industry between practitioners and practice owners. Most practitioners who are not owners just want to use their skills to make animals well and be paid a fair market salary. They have little business or economic schooling. They are scientists. They didn't enter the profession to get rich but want just compensation. The cost of human medical school is actually cheaper. They have gone through rigorous, elaborate and expensive schooling in both large and small animal segments of the profession.

Those who have graduated in the last 15 years have experienced skyrocketing tuition with many incurring a decade of debt in order to pursue their dream job of caring for animals. Relative to the amount of training they receive compared to other professions, starting salaries for practitioners have been lacking, with most of the higher incomes going disproportionately to practice owners. Unfortunately, according to Clint Neill PhD in his 2021 State of the veterinary Industry, "40% of veterinarians consider leaving the profession with 25% being serious (Neill 2021)." WOW!

Veterinary Practice Owners

There are about 32,000 veterinary practices in the U.S with an average of 10.7 employees per establishment. More than 25% are owned by large private equity consolidator groups, who account for about 50% of transactions. Consolidators market share is growing and eventually will be 50% of total practices that account for 65-75% of transactions. There is a trending decline in the percentage of private practitioners who are owners, from 43% in 2007 to 33% in 2019 (JAVMA News 2020).

Veterinary Inflation Compared to U.S. Inflation



If supply and price demand were balanced, revenue from client financial compliance would provide a sustained economic base from which the veterinary profession could thrive and continue to serve society effectively. More clients could afford preventative and critical services. In other words, reduced fees = more clients = larger profits with > volume. If you are a clinic that only has a 50% appointment book or less average, your fees are too high. If a 75-80% book, then your fees and capacity are just right.

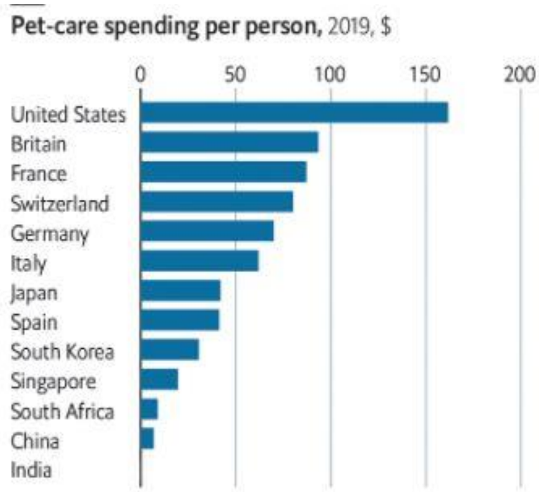
Veterinary Capacity

Currently the veterinary industry, starting with the number of new veterinarians allocated per year (3,200), the current companion animal veterinarian population and the client appointment capacity of most practices is insufficient to serve all pet animals in the United States. Currently, the industry has an insufficient supply of veterinarians, veterinary technicians and is only staffed to meet the demand of 40% of the pet owning population, while most practices have 75% of their appointment book filled.

A Comparable Analogy

What if auto dealers only sold Cadillacs, Lexus, BMWs ,Mercedes Benz, Teslas or Lincolns and those business owners had all the business they could handle and were staffed accordingly? That's what is happening in the veterinary industry today. There are no price differentiations as in other businesses. It's one size fits all. Take it or leave it.

U.S. Pet Spending



Pets are part of our families today and they improve our mental and physical health. Most dogs don't sleep outdoors anymore. They sleep in homes, in bedrooms and sometimes in owner's beds. Today's pet owners with financial means are more willing than ever to spend whatever it takes to keeps their "family member" pets healthy and happy. America spends more on their pets by far, than any other country.

Hospital Revenue

The industry is profitable, by and large, although most practices have a profit margin that is considered to be below average. The profession today appears profitable if you measure profitability in terms of gross revenue. But, if the current business yardstick, EBITDA is used (Earnings Before Interest, Taxes, Depreciation, and Amortization), profitability varies with over half of the veterinary practices struggling.

Overall annual revenue shows increase but that doesn't tell the whole story. All profitability is coming from consistent, annual increased prices that are greater than the average consumer price index. As a result of these high prices, many clients are purchasing less or they are forgoing annual clinic visits unless their pet is critically sick.

Some clinics are financially healthy and achieve profitability (after appropriate adjustments, including fair rent and fair owner salary, among others) of 14-18% of gross**.** (These clinics are target for consolidation). Some clinics achieve net profitability of 7-12%, while a large segment struggle with flat revenues and increasing expenses, mostly associated with technological advancements and general operations.

"A good practice should have an EBITDA of at least 12 percent, but most veterinary hospitals operate closer to 5 to 8 percent. This means that most practices are essentially breaking even-or taking a loss-for the year (Adams 2018)."

Revenue for the Veterinary Services industry is anticipated to increase a strong 6.0% in 2021 due to an increase in pet ownership amid stay-at-home orders and increased per capita disposable income.

Effect of Covid-19

While hospitals initially experienced significant revenue declines early in the Covid-19 pandemic and people stayed home to avoid spreading the virus, they have since rebounded and experienced a slight increase in growth for 2020. More people are

spending increased amounts of time at home. They have accumulated more discretionary income from government stimulus program. As a result, there has been more pet spending on veterinary services during the pandemic. Most visits though are coming from existing clients.
The difficulty within the profession has been staffing. Most clinics have had to reduce appointments by about 25% to adjust for staff deficiencies.

Pet Visits During Covid-19

Data from VetSuccess demonstrates that the majority of revenue growth is coming from existing clients, not new clients or new pets. Specifically, clients are spending more per veterinary visit in 2020 than in prior years, with three key factors behind this trend.[7] The first is that the number of line items per visit has expanded, indicating that clients are asking for more veterinary products and services. The second is that clients are opting for higher-value products and services. And lastly, average prices have continued to increase as well. While new clients are certainly a factor—and there has been a slight increase in the volume of new patients compared with last year or even the year prior—the data clearly show that existing clients contribute the bulk of practice revenue growth (Zirkle 2021).

Lack of Data on Visits at the Practice Level

For purposes of the present study, a visit was defined as examination or treatment of a dog or cat at a veterinary practice. This definition was consistent with how veterinarians said they perceived a visit. Yet, it became clear during in-depth interviews with practice owners that many veterinarians did not routinely monitor number of patient visits (or if they were declining). In fact, only 1 of the 34 veterinarians who were interviewed knew whether visit numbers were decreasing in their practices and by how much (Volk, Executive summary of the Bayer veterinary care usage study 2011)."

Quality of Care Limitations

"Six hundred twenty of 1,088 (57%) respondents reported that owner-divulged economic limitations (by choice or necessity) affected their ability to provide the quality of care they would like for patients in their practice at least once or multiple times per day. Economic limitations of clients are an important cause of professional career dissatisfaction and burnout for veterinarians. Findings did not differ significantly between specialists and GPs. Results of the present study confirmed that small animal practitioners are frequently faced with client economic limitations, and those limitations have serious and profound consequences for veterinarians as well as pet owners and patients (Kipperman 2017)."

A Spectrum of Care Versus the Gold Standard

One approach for expanding access to care is by creating models of veterinary medicine that support a spectrum of care, delivering care at levels other than just the gold standard. Veterinary graduates in the past were taught "The Gold Standard" of care and only performed those procedures for fear of board disciplinary action. Because of this, the veterinarian and pet owner may perceive a lack of available options, which often results in animals receiving no or limited care or being euthanized. The veterinary school at Ohio State has led the way in teaching a "Spectrum of Care" as part of their, *Be The Model* initiative (Ohio State Frank Stanton Veterinary Spectrum of Care Clinic 2021).

Not Visiting A Veterinarian

The top reasons for not visiting a veterinarian, in order, were that the dog or cat did not get sick or injured, the owner did not have the money, the pet did not need vaccines, or the owner gives vaccines and health care to the pet.

The Outlook for the Next Five Years is Positive

Pets are considered part of the family in today's American households. As a result, people with upper-middle and upper-level incomes will pay exorbitant sums to obtain necessary veterinary care. Dog and cat ownership numbers are up, pet spending is up, the lifespans for companion animals are up. And the profession enjoys a private pay revenue stream with no reimbursement risks.

Furthermore, millennials, with a lengthy future for pet care, are especially committed to doing everything in their power to make sure their pets enjoy long, healthy lives. Aging pets, like aging humans, require more healthcare services. Because of age-related ailments, owners with older pets require services that often go beyond routine care. Consequently, veterinarians and technologists will perform more tests, including blood, tissue, and other diagnostic exams. Diagnostic tests and equipment used in human healthcare, such as x rays, ultrasound, computed tomography (CT) scans, and magnetic resonance imaging (MRI), are finding their applicability in veterinary care.

There will be a shift in business models for veterinarians, as the adoption of telehealth is on the rise, the demand for knowledge, expertise, and consulting solutions will increase.

In summary, most prognosticators see a growing, aging pet population, more advanced pet treatment options and, as long as the economy is good, it will benefit more households with discretionary income. Growth looks positive through 2026 barring any setbacks from extended Covid-19 pandemic that would inhibit pet office visits.

The Veterinary Profession in the Eyes of Wall Street Investors

Wall street private equity and hedge funds see a great opportunity to make money in the veterinary profession. They are attracted to a fragmented, unregulated, recession proof perceived market, with consistent historical and projected growth. While private equity investors may not get a 5x to 7x return, they will see a 2x to 4x return and take on much less risk, "It's not a swinging for the fences investment, but a solid double or triple." – Forbes 2018

Corporate consolidators have an advantage with volume. They can obtain big discounts based on volume purchasing that makes products, equipment and services available at lower costs. They have sophisticated management, IT and reporting systems that enables data-driven analysis of operations.

Fueling the transition are aging practice owners that are looking to exit and current practitioners who want to work less and are not interested in the demands of practice ownership. Compounding the problem is a growing preference among graduating veterinarians to work for a veterinary services platform rather than start their own practice or acquire an existing hospital. This all adds up to an attractive investment market ripe for corporate consolidation and take over.

Surprisingly, this is all happening despite laws in most states banning corporations from owning veterinary practices. As old-fashioned as it may sound, the idea behind the laws was that doctors employed by corporations might have a harder time exercising independent judgment on behalf of patient care; commercial interests, in their quest for profits could escalate fees and reduce the quality of care by support staff.

Today, private equity (PE) firms own major pet retailers (PetSmart and Petco), thousands of veterinary clinics, pet insurance companies, and pet product manufacturers.

The Private Equity pet take over is just one more way that these little known, but increasingly powerful, Wall Street firms have secretly crept their way into everyone's daily life, taking resources from main street to Wall Street. The money we spend on dog food and cat toys and trips to the veterinarian goes right to Wall Street. Private equity's predatory business model sucks value out of companies (by loading them up with debt, charging exorbitant management fees, and taking huge dividends) that can force dire cost cutting (job losses, reduced wages, lower quality and service). Petco and PetSmart have been financially struggling for decades despite their popularity and command of the market.

In 2015, BC Partners bought PetSmart and burdened it with $6.2 billion in debt. That debt swelled to over $8 billion after BC Partners borrowed more to buy pet e-tailer Chewy (which subsequently went public, but PetSmart is *still* carrying that debt). CVC Capital's 2016 takeover of Petco left the company to repay $3 billion in debt. On top of the debt, the PE firms charged whopping fees and dividends to the pet store chains. PetSmart paid its PE masters over $800 million in management fees and dividends; Petco is still struggling under $1.3 billion in debt used to pay dividends to the previous PE owners, who sold Petco to CVC Capital.

And private equity takes a cut when our pets need veterinary care. PE firms have bought thousands of veterinary practices and rolled them up into nationwide chains. Just four of these PE-owned veterinary chains have almost 1,500 locations (National Veterinary Associates, with over 700 locations; VetCor, with 373 practices in 31 states; PetVet Care Centers, with over 200 pet hospitals in 28 states; and Pathway Veterinary Alliance, with over 225 vet practices in 34 states). PE even owns pet insurance companies like Petplan and Embrace Pet Insurance.

If typical industry consolidation trends are any indication, consolidation of veterinary practices will continue until just three or four companies control 60% or more of the market. Great Britain is already there.

Competition

For Veterinarians - When we talk competition we basically are referring to which business profits from the work of a licensed veterinarian, non-profit or for-profit. Currently there are few non-profit veterinary organizations practicing full-service veterinary medicine in 2021. Licensed veterinarians are paid the going market rate whatever the business structure is. You could make more money in the for-profit sector if you specialize or "produce," no doubt. Or you could make a market rate salary and help animals whose owners have limited means. It's a career choice.

The industry is currently being consolidated by private equity backed corporations where, eventually, 3 or 4 mega corporations will own and operate 60% of all clinics. That means that net income from practices will end up in the bank accounts of Wall Street investors.

Current surveys show new graduates have no desire to own or manage a clinic, let alone work long hours and favor a work-life balance. The line of succession for clinic ownership has been broken. So, does it really matter what type of business you work for – non-profit or for-profit? Veterinarians have options.

The Year 2000 Changed Everything

The veterinary world was a trouble-free, simple, profession enjoying the benefits of being an industry oligopoly up to the year 2000. Vets were not getting rich, but they were happy. There was minimal price competition and little differentiation from one veterinary practice to the next. Clinics offered similar treatment plans, wellness examinations, vaccinations, soft tissue surgery, dentistry, prescription medicines and pet food. Open an urban or suburban clinic and clients within a 5- or 10-mile radius would soon come. Life was good.

That world, the world exemplified by James Harriot in *All Creatures Great and Small* is changing, and fast. There are several macroeconomic forces at work that have assaulted private practice ownership[8].

Competition

The veterinary industry is highly-fragmented (lacks major players that dominate the industry) and currently under consolidation by Wall Street private equity funding. Consolidation has quietly started in the urban and suburban areas and will follow to rural areas, if profits are there. Corporations own less than 25 percent of general animal clinics and approximately 50 percent of referral practices. That brings total corporate-owned veterinary practices to about 28 percent, but close to 45% of all veterinary visits. This may spell trouble for over half of the 31,000 veterinary clinics and hospitals that are just barely getting by. Financial management and financing for modern technologies are particularly challenging for small practices. Providing high quality medicine increasingly requires costly investments in modern equipment. Usually that comes at a cost of owner compensation that many can't afford.

Corporate Veterinary Consolidation enjoys quantity discounts and economies of scale that increase profit margins. Over time it makes it difficult for small clinics to compete. Douglas G. Aspros, DVM predicts "Taken all together, these shifting forces in the veterinary industry will likely result in increasing the size of the average practice and, increasing the number of practices linked to corporate ownership."

In response, small veterinary practices have joined Group Purchasing Organization (GPO) to negotiate better pricing and terms from distributors, manufacturers and service providers. That kind of buying power can cut costs for small, independent practices in ways similar to the business advantages automatically enjoyed by corporate mega-chains.

In addition, general practices are facing greater competition on all fronts:

- App and cloud-based technologies connecting pet owners with veterinarians online and affording easier access to pet health information, as with Petco's PetCoach platform and Vet24seven's AskVet platform.

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[8] Skeldale, is the rural clinic where James Herriot worked in England (aka Dr. Alf Wright). He was the writer of *All Creatures Great and Small*, the book that inspired many veterinarians. His clinic sold to Medivet, a chain of more than 260 vet practices backed by a London private-equity firm, Inflexion.

- Low-Cost Retailers — Pet stores sell supplements, specialty diets, and over-the-counter medications. They also have vaccine clinics. Big box retailers like Walmart, Costco, Petco, Target, Kroger, PetSmart and Tractor Supply are working hard to induce customers to spend more money on veterinary care products and services. Walmart launched WalmartPetRx.com, Petco's addition of Thrive full-service animal hospitals in Petco stores and launch of PetCoach clinics making it easier than ever to access quality pet care at great prices.
- Online Retailers "Because some retailers are often able to significantly undercut prices charged by veterinarians, the pressure on veterinarians is intense and ongoing, the most acute threat comes from Chewy (Niedziela 2019)."
- Online Pet Telemedicine is in various stages of deployment.
- Consolidation via mergers and acquisitions, such as the merger of wholesaler Henry Schein's animal health business with Covetrus (Vets First Choice).
- High Volume, Low Price Niche Specialists.
- Low-Cost Vaccine Clinics by for-profits and non-profits.
- Low-Cost Spay/Neuter done in large volume performed by non-profits.

Pet Insurance -- The Great Hope of the Industry

Approximately 3.45 million pets were insured in North America at the end of 2020 or less than 2%. There are two basic types of insurance offered by over 20 companies for both dogs and cats, Accident & Illness and Accident Only. The average annual cost for Accident & Illness is about $600 dogs/$342 cats and Accident Only $218 dogs / $134 cats. Dogs make up the majority of insured pets in the United States with 82.9% of the market, cats 17.1%.

The costs associated with pet insurance plans, lack of consumer awareness, stringent rules and questionable client repayments has caused a unenthusiastic consumer response.

Section 4 A Critical Need for Non-Profit, Full Service Veterinary Clinics

How can a for-profit, profit maximizing veterinary business meet the needs of a subset of pet owners who are not currently being served due to affordability? They can't! Nor do for-profit practices want to. Why? There is no money in it! They would have to discount their prices 30-50% to reach that market. Their current staffing is geared to serving their pay-for-service clientele, half are making money and functioning at near capacity while the other half rely on price increases to survive.

The Dilemma

It seems paradoxical to support non-profit, full service community veterinary clinics when some veterinary practices are struggling financially, but that is what's needed. Why? Because there are two different markets of pet owners that need to be served:

- The main market of pet owners who can afford for-profit prices.
- The sub market composed of owners who can only comply if prices are affordable, that is 30 to 50% off reasonable and customary pricing.

It's all about prices. A for-profit practice would go bankrupt if they discounted their prices 30 to 50% off to make veterinary care affordable and accessible for financially struggling clients. Their current business model would not allow for that to happen. These services must be subsidized through public, tax- deductible donations.

In Great Britain, veterinary services are free to those who qualify.

Practice Expenses are Similar, Non-Profit or For-Profit

Whether a practice is for-profit or non-profit, the expenses to run the practice, like veterinary compensation, staffing, supplies, equipment, etc. are similar. When non-profits offer prices at 30-50% off to make that service affordable to low-income pet owners, that deficit must be made up in three areas: Affordable fee payments from clients, quantity efficient productivity and tax-deductible donations.

The Role of Non-Profits in Our Communities

The role of nonprofits in our communities is to fill a gap in services not otherwise provided by government or private for-profit businesses. Veterinary non-profit work makes services affordable for pets whose owners are financially struggling and unable to meet the price demanded by for-profit practices. For-profit practices are largely owned and run by corporations, non-profits are owned by the community, for the community. They are financially supported by donations from humane people who care about the welfare of animals, even if it owned by someone who is financially struggling.

To provide veterinary care you need a pet and a vet. Regardless if it's a non-profit or for-profit veterinary practice. Licensed veterinarians, by law, run the activity. These practitioners are usually paid the going market rate for their services whatever type of business structure it is. The real issue is who benefits from the proceeds, for-profit practice owners or the community.

Why Do We Need Non-Profit, Full-Service Community Clinics?

Pet Industry demographic analysist John Gibbons says "Income truly matters in Veterinary Spending. Higher income is still by far the biggest single factor in veterinary spending. Performance increases with income and reaches the "break even" point (100%) at $70,000. Household incomes greater than $70,000 account for 66.3% of veterinary dollars, performance = 159.8%. Performance for incomes less than $70,000 = 57.6%. That's a difference of 102.2%. That's a huge disparity. Strong inflation has resulted in a reduction in the frequency of Veterinary visits since the great recession in 2008. Much of the segment's growth has just come from higher prices."

The reason there is a need for full service, non-profit community clinics is because the U.S. veterinary industry is only serving about 40% of pet owners in this country due to twenty plus years of price increases that have more than doubled the U.S. average rate of inflation for the cost of services. Current clients have household incomes greater than $70K and have sufficient discretionary income to afford today's veterinary prices. Over half of the pet-owning population cannot afford anything other than being law-compliant with a Rabies vaccine.

The University of Tennessee's Access to Veterinary Care Coalition Report (Access to Veterinary Care 2018) found:

29 million dogs and cats live in poverty households

74 percent of pet owners reported not being able to afford sick care, with middle class participants as likely to cite financial barriers as lower-income participants.

56 percent of pet owners reported not being able to afford emergency care for their pets.

The Human Medical Model – HRSA Health Center Program

HRSA Health Centers are community-based organizations that deliver comprehensive, culturally competent, high-quality primary health care services to the nation's most vulnerable individuals and families.

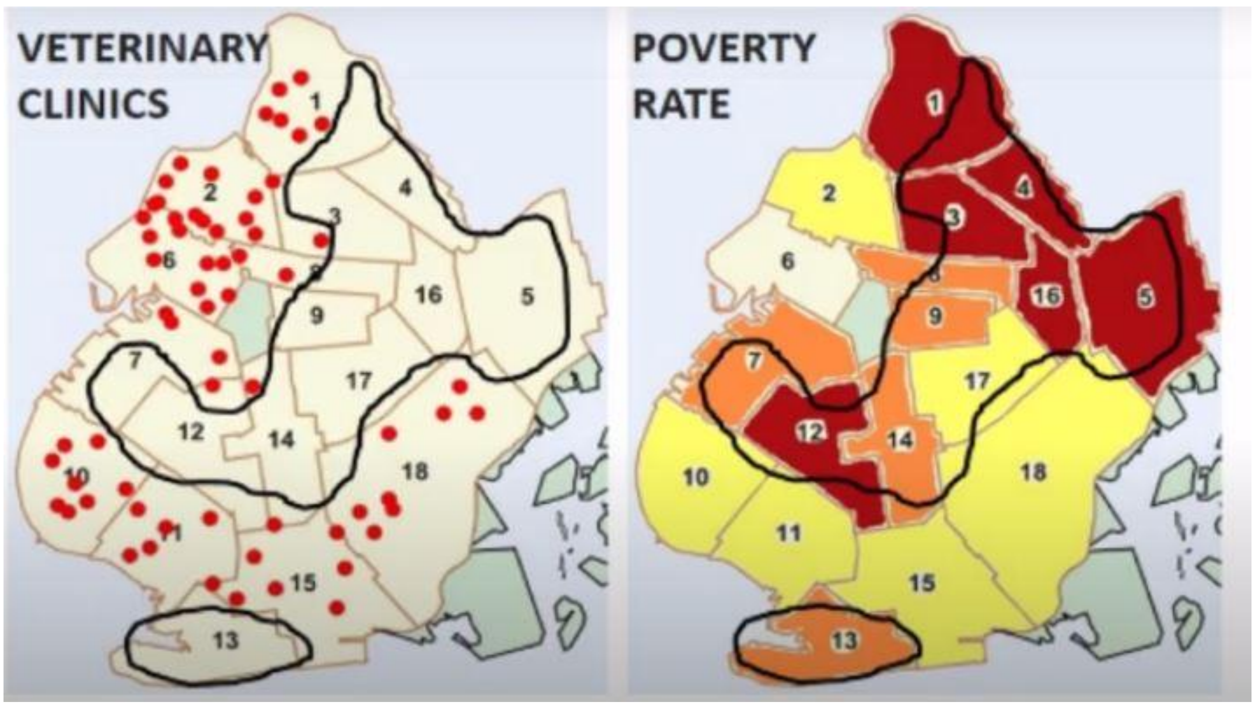
- HRSA Health Centers provide services regardless of the patients' ability to pay and charge for services on a sliding fee scale.
- They have developed systems of patient care that respond to the unique needs of diverse medically underserved areas and populations.

A Confluence of Negative Household Economics

Veterinary prices started to rise appreciably in the year 2000 at the urging of industry leaders (KPMG - Brown 1999). Concurrently there was a steep decline in labor wages represented as a share of gross domestic product (GDP). Compounding the situation is the fact that average Americans, over half the population, have no savings. Studies show 125 million adults are living paycheck-to-paycheck. 40% of pet owners cannot afford a $400 unexpected expense while 69% cannot afford a $1,000 unexpected expense. Median household income was $68,703 in 2019, according to the U.S. Census Bureau, but that number is skewed by the top 1% of earners and income is far less for ethnic populations.

Pet owners with financial resources today enjoy well-schooled practitioners that have modern technology and equipment at their disposal for the treatment of pet illnesses. Unfortunately, those same advancements are driving prices even higher, making veterinary care too expensive for over half of the pet-owning public.

Access to Veterinary Care



The above pictures show a veterinary resource desert in Brooklyn, NY home to 2,532,645 people and approximately 1,176,765 pets (dogs and cats). 25% of residents live in poverty, 56% of resident don't have a car. There are no veterinary clinics in the encircled areas.

According to Clinton Neill Ph.D., who specializes in veterinary economic research "there are animal resource deserts—entire neighborhoods with no veterinarians, no pet supply stores, no groomers, no educational resources, and no animal welfare infrastructure. When there are no veterinarians in a community, standard wellness care is not the norm—and familiarity, experience, and knowledge concerning common pet health concerns (and responsible pet ownership) do not exist. When there are no pet supply stores or big box retailers, simple items like pet food or a collar and leash are out of reach. Public transportation with pets is prohibited in most cities. Pet owners end up spending more, thus experiencing disproportionate financial burdens because prices are higher and selections fewer at small corner stores, and many must wait until situations are dire to address a pet's medical needs," (and it's often too late).

Complaints from Veterinarians?

Some veterinary practice owners are oblivious to the large subset of pet owners that are unable to meet their price demands. Why? There are no analytics that show them what percent of the total pet owning population they are serving or not serving either on a national, state or local level; how many clients they lost and why, the demographics of their market and the numbers of how many pet owners are not being served in their area and why (Volk, Executive summary of the Merck Animal Health Veterinarian Wellbeing Study II 2020).

According to Will Magnum "Most veterinarians do some level of charitable work, such as providing discounts to rescue organizations. But many don't realize that the clients they see in their practices are just one subset of the pet-owning population. When veterinarians aren't exposed to reality outside of their practice, it can be hard to convince them that a nonprofit that is treating thousands of pets a year isn't taking something out of their pockets. But in most cases, it's not (HSUS 2015)!"

Veterinarian complaints go something like this:

- "If they can't afford them they should not have them"
  They have them, (see U.S. pet population), and love them just like everyone else. A consumer survey from HUD on emergency disaster planning found 24% of households living below the poverty line keep pets.
- Why should I have to pay for the care of their pet by discounting my prices?
  Vets are always asked to discount their services because there is a gap in what today's price demands are and what the average pet owner can afford. They don't have to discount. Just refer within a network to a non-profit, full-service community veterinary care center and they will handle it. It's still your client.
- "Unfair, for-profit clinics have to pay taxes, non-profits don't."
  After owner draw(s), depreciation, amortization, higher than normal rents, and questionable education expenses, few practices have business earnings to tax.
- "It's a zero-sum game, if they provide a vaccine or spay-neuter, then that's one I am not doing. They are taking money out of my pocket.
  Low-cost services reach a new audience (subset) of pet owners and introduces them to veterinary services, most often, for the first time.

Where existing full-service, non-profit clinics have been opened for years, local veterinary practices initially protested, but soon found their revenue were not affected by the non-profit full service clinic. And, rather than send critically ill patients away due to affordability issues, for-profit clinics referred them to a non-profits for life-saving treatments.

Section 5 - A Plan for Action

The medical needs of low-income pet owners, those owners with little savings, living paycheck-to-paycheck, cannot be met by profit-maximizing, for-profit and corporate veterinary clinics. The needs of this subset of the pet-owning population can only be served by nonprofit, donor subsidized, full-service clinics targeting low-income pet owners. Financial forces and technological innovation are separating pet owners and veterinary practices into have and have-nots. A dual delivery system must be in place to address all pet owner veterinary medical needs.

The vision presented is a "better world" for both pets and their owners - regardless of their financial status. A world where all companion animals can access veterinary care with for-profit veterinary clinics providing the vast majority of care, working together with nonprofits, who provide affordable, accessible services to the subset who are financially struggling. All pets need vets! This plan will grow the industry threefold.

The Goal: Full-Service, Non-Profit Community Veterinary Care Hospitals

Why? To serve low-income, financially struggling pet owners

Outcomes

- Veterinarian Sponsored Program to Address Veterinary Care Income Inequity
- Low-income and working poor will have access to critical veterinary care
- Systematic approach to provide veterinary medical care for the underserved
- Financially self-sustaining through nonprofit donations, client low-cost fees
- Veterinarians won't have to send owners away or perform "Economic Euthanasia." Now they can refer within "their network" to a Community Care Center to address the problem.

Critical Objectives for Success

- Endorsements from American Veterinary Medical Association (AVMA), American Animal Hospital Association (AAHA), American Animal Veterinary Medical Colleges (AAVMC), Veterinary Colleges, state and local associations.
- Commitment from veterinary equipment and medical suppliers to support these practices with donations, in-kind or discounted products.
- Corporate consolidator donations.
- Non-profit Community Veterinary Care Centers **must income qualify**

Non-Profits Must Qualify Clients

In order to develop a lasting, workable delivery system that serves all pets, non-profits need to qualify clients using a modern, technologically advanced, logarithm program that defines who is eligible based on income. It's the only way for a full-service, non-profit Community Care Clinics to gain the trust and support of the veterinary profession.

Qualifications to Receive Low-Cost Community Veterinary Care

At the time of registration (during address verification), every patient is electronically assessed for a Federal Poverty Level (FPL) ranking through (presumptive) automated third-party software. If the automated system determines a FPL level between 0 and 400%, the FPL value is returned and placed in the "FPL%" field on the patient's account. The patient is then qualified. If the automated system determines a FPL level greater than 400%, the patient is not eligible for service.

About one in five Americans receive government assistance under these programs:

- Housing Assistance: provision of public housing and housing rent subsidy payments.
- Medicaid: Pays for medical care for people with low incomes
- Public assistance from state and local government welfare programs, such as Temporary Assistance for Needy Families (TANF) and short-term emergency help,
- SNAP: Supplemental Nutrition Assistance Program
- SSI Program: Provides monthly benefits to disabled adults and children and to those 65 and older who have limited income and assets but are not disabled
- Unemployment Compensation: Assistance for those who lost their jobs.
- Child Nutrition
- Low Income Veterans / Disability
- Pell Grant Recipients

The British Example

There are two century old non-profit practices in Great Britain that have led the way and provide low-cost or free veterinary care for income qualified pet owners:

PDSA - People's Dispensary for Sick Animals PDSA was founded in 1917 to provide care for sick and injured animals of the poor. It is the UK's leading veterinary charity with 48 pet hospitals and an annual budget of 71 million pounds. Most of their revenue comes from donations. "We are here for pet owners who have nowhere else to turn for help with their sick and injured pets." They work to provide the best possible pet wellbeing outcomes for people in need in the most cost-effective way.
They offer everything; from major surgery (including orthopedic), treating serious illness and wellness services.

PDSA uses an automated online form to determine eligibility with proof required at the hospital. The form is programed to ask general and specific questions like; Are you on government assistance? Check the type of assistance you receive. Are you retired and on a fixed income? How many people live in your household? It also disqualifies people.

These organizations enjoy good relationships with veterinarians in Great Britain. They even subsidize a portion of emergency care at for-profit clinics when decisions need to be made promptly. Veterinarian owners don't feel threatened or complain about stealing clients or losing money to a competitor. They know that these clients have limited resources and would not be able to access veterinary care any other way. The main reason these programs have been successful is that the charities income qualify.

Blue Cross for Pets Since 1897, this veterinary charity in the United Kingdom provides full-service veterinary care for sick and injured animals owned by those qualified for government assistance. They provide 24/7 service, prioritizing emergency and essential cases. They helped 32,059 pets in 2020.
They partnered with 220 veterinary practices to subsidize care in 622 cases for emergency treatments. They aim to help people on benefits who cannot access affordable pet care.

Summary & Conclusion

Key Issues and Findings

- The veterinary industry serves less than half of the U.S. pet population
- America has an income inequality crisis that affects client visits
- Half of pet owning households have little discretionary income for spending
- 60% of households live paycheck-to-paycheck
- 40% of pet owners cannot afford a $400 unexpected expense
- 69% cannot afford a $1,000 unexpected expense.
- Practice prices have risen higher than the rate of inflation for the last 20 years
- Veterinary clients are not represented proportionally by race (90% white)
- Veterinary practices are not represented proportionally by veterinarians of race
- Vet schools are failing to provide seats for students of race equal to population
- Vet school tuition rose higher than the rate of inflation for the last 15 years
- The student debt-to-1st year-income is still over 2:1 after "Fix the Debt Summit"
- Veterinary schools are recruiting more out-of-state students to increase revenues
- Veterinary schools are admitting students that are perceived to have no debt, rich
- Veterinary practices have been slow to adopt state-of-the-art pricing. For instance, frequent price changes, complex pricing structures, segmenting customers based on value and price sensitivity, designing product and service bundles, systematic sales of add-ons and complementary services, "free to fee" migration, loss leader and other state-of-the-art pricing strategies.
- Prices of veterinary products and services are often not based on data.
- Pricing methods in the veterinary services industry typically do not use marketing segmentation methods to deliver differentiated value to different groups of clients.
- Practice competition is intensifying, coming from big box, high volume retailers
- Clinic veterinarians and staff suffer high stress, job burnout and dissatisfaction.
- Lack of treatment consent due to affordability is a major veterinarian stressor.
- Demand for vet services has been misidentified for decades — It's Income Elastic
- Veterinary businesses are a 50/50 mix of profitable and struggling practices.
- The industry is being consolidated by Wall Street, soon to have majority control.
- Millennial vets are not interested in ownership and desire work-life balance.
- The industry outlook for the next five years overall is financially positive.
- Staffing is a problem
- Covid-19 has affected veterinary business revenue somewhat due to staffing.
- The only way to serve the unmet needs of pet owners is through non-profits
- Great Britain has proven that full-service, non-profit clinics work.

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About the Author

Bob Christiansen has spent the last 30 years working to save animal lives. He founded Canine Learning Centers in San Diego, CA in 1991. He witnessed many people who were on the verge of relinquishing their dogs due to easily solved behavior problems. He wrote books to help owners understand canine behavior, California Dog Owners Guide. He witnessed the plight of shelter dogs and wrote, Choosing and Caring for a Shelter Dog. After visiting numerus shelters and seeing 1st hand the waste of thousands of good dogs and cats he wrote Save Our Strays: How to End Pet Overpopulation and Save Animal Lives.

Mr. Christiansen has worked as a shelter Director and created, along with his veterinarian wife, Project CatSnip where over 100,000 cats were sterilized. Seeing the plight of pets owned by people who are financially struggling, he and his wife co-founded WellPet Humane, a non-profit, full-service veterinary hospital in Atlanta, GA. WellPet grew to become a $5 million-dollar business with 50 employees and 12 veterinarians. In 2017 the business was sold to a consolidator. Today the proceeds from the sale are being used to provide grants to help establish more non-profit clinics and help animals that need medical care under our new name, The Boca Fund.
Please join us in our mission to provide affordable veterinary medicine. Visit www.bocafund.com

Join the movement and help spread the word to all pet owners about this critical need.