

The Clinic of the Future

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Ah, we live in very interesting times! The veterinary profession is faced with what some consider the most challenging era since the introduction of the combustion engine. Examples of profession altering events include:

- The global financial crisis
- The housing collapse and failure to recover
- Tight credit...stiff lending standards
- High unemployment and underemployment
- Less discretionary/disposable income
- Consumer uncertainty and lack of confidence
- Visits/transactions/patient/client numbers trending down for a decade
- The skyrocketing, unsustainable level of veterinary student debt
- The wholesale turnover in veterinary practice ownership over the next 20 years (more sellers than buyers puts downward pressure on practice values)
- The aging Baby Boom population (historically, the incidence of pet ownership has declined markedly beginning at age 65)
- The increased incidence of veterinary practices with no value or very low value
- Excess capacity (Too many veterinary practices? Too many small animal veterinarians?)
- The sale of veterinary medications via the internet and over-the-counter in pet retail and other big-box stores. The sales of FDA regulated products in human pharmacies, including Walmart
- The challenge of feline resistance
- Increased competition from non-profit entities
- Availability and delivery of veterinary medical advice via the internet (Dr. Google)
- The explosion in social media
- Rapidly advancing technology
- Government regulation, taxation, and uncertainty regarding the future of health care

Not long ago, it was believed that small animal veterinary medicine was recession proof. A few years ago, a spokesman from William Blair & Co. (a noted financial analyst firm that regularly researches pet and vet spending in the U.S.) declared the same in *The Wall Street Journal* and *Money* magazine. We now know that's not true. Very fortunately, however, the profession is economically resilient – or recession resistant. Broadly defined, a recession means companies are shrinking in size (i.e. experiencing a year-over-year decrease in gross income). In 2008-2011, that didn't happen to the majority of small animal practices – nor is it happening in 2012 year-to-date. Are practices growing at the same rate they grew five years ago? No, of course not. But two-thirds aren't shrinking, and one-third are growing more than 5 percent year-to-year. And interestingly, many practices are more profitable than they were five years ago. How? Feeling the economic pain, a lot of practice owners and managers started looking long and hard for opportunities to run more lean – to dot all the “i's” and cross all the “t's.” In the two largest expense categories – labor and inventory – we've seen improved efficiencies at many practices.

Many industry suppliers – the companies you buy from – are publicly traded. As such, they're required to publicly report their financial results quarterly. Very simply: if you're not selling products to pet owners, you're not buying products from industry. How has industry fared? Even better than veterinary practices! With rare exception, these companies are growing – they're not participating in the recession. They're certainly not growing at historical rates from the “good ‘ol days,” but they're definitely not shrinking. How many of your field sales reps have been laid off? What about those pleasant folks at the call center? My bet – none. Industry is faring relatively well.

So, what's the current state of small animal medicine? In 2008-2011 more than one-half of practices in the U.S. were flat (i.e. no growth) or grew modestly (low single digit growth in gross income). A minority of practices shrank in size – or actually participated in the recession. The majority of these practices:

Shrank very modestly (i.e. gross income decline of low single digits)

- Were confined to the hardest hit states (California, Arizona, Nevada, Florida, Michigan and Ohio)

Of course there will always be micro-economic climates. A practice in hard-hit Detroit might thrive if the local SUV plant adds a second shift. A practice in thriving North Carolina might suffer mightily if the local furniture or textile manufacturer relocates production to China, India or Latin America.

What's ahead? The government officially declared the recession ended in late 2009, but I can't find a single credible business person who honestly believes that! With very few exceptions, small animal veterinary expenditures are purely discretionary – not compulsory – in nature. The global financial crisis has resulted in what the experts call “a jobless recovery,” and that's exactly what we're witnessing. I largely ignore the reported unemployment rate given its many flaws (for example, it excludes people who've given up looking for work and those who are underemployed). While unemployment is reported at around 9%, I reckon it's actually nearly twice that in reality. Instead, I look at:

- New applications for unemployment, and
- New jobs created

While both are trending positively, they're both abysmally anemic. The unemployed, underemployed, and those that fear the same have fewer discretionary dollars to spend on pet care. They also tend to be more careful and conservative with their spending (just ask your local car dealer or realtor!). Economic euthanasia – the dollar point at which the pet owner can go no further – has trended down for the first time in recorded history. As you might expect, emergency and specialty practices have been hardest hit. While transaction numbers are down across the country, pet owners continue to bring in their sick pets and schedule wellness visits. Elective procedures are very clearly a more difficult “sell” today. Like never before, practices (your receptionist, exam room assistant, veterinary technician, practice manager, and veterinarians) absolutely must convey the value of any elective procedure (discuss the benefits in order to justify the price). Veterinary practices also need to help clients find a way to pay for these services.

Fortunately, the veterinary profession is far healthier than the U.S. economy. Most small animal practices grew in 2008-2011 – and 85 percent expect growth in 2012. The vast majority of companies supplying your industry experienced growth in 2008-2011 – and expect stronger growth in 2012. While the profession has been negatively impacted by “the worst economy since the Great Depression,” it's still proving economically resilient. Extraordinary opportunities abound in every small animal practice. Even in very high-performing veterinary practices, dollars “walk out the door” each day in terms of services and products that weren't recommended or delivered, or if they were provided, weren't charged for. These are existing clients, with existing pets. Doing more or going deeper with existing clients is far easier – and far more productive and cost-effective than attracting new clients.

Dogs and cats don't know the economy stinks. Their health care needs remain despite the economy.