

V E T S O U R C E

Home Delivery

Essential Services For Improving Patient
Outcomes And Pharmacy Performance

EXECUTIVE SUMMARY

The way that pet owners purchase pet medications and healthcare solutions for their pets is changing. Studies show that they are more interested in purchasing medications outside of their veterinary hospital. This shift has placed a heightened awareness and focus in the veterinary profession on the challenges of protecting client relationships and pharmacy revenue.

Two recent market research studies have documented this shift in consumer behavior and the likelihood of the pace of change to increase. The Pet Pharmaceutical Market Shift Study (Brakke, 2015) identified that pet owners are increasingly aware of the availability of pet medications in alternative channels. Convenience is the driving motivator, and owners are reporting high levels of satisfaction when they do purchase from these non-veterinary outlets. The Changing Pet Owner Study (Brakke, 2016) suggests that this trend will continue as millennial pet owners purchase outside the hospital more often compared with previous generations.

With product and pharmacy sales historically contributing almost 1/3 of small animal practice revenue,⁽¹⁾ it is no wonder that many of these veterinary business owners are concerned about the shift in buying patterns. In 2015, more than 3 out of 10 hospitals reported a loss in revenue from heartworm preventives, and 4 out of 10 lost flea and tick product revenue. With chronic use medications also at risk, many veterinary hospital owners have lowered their pharmacy prices in an attempt to compete, only to find the net result to be overall lower profit for the practice.⁽²⁾

Growing veterinary pharmacy revenue and profitability in today's climate is indeed possible. Demonstrated through a large, multi-hospital, retrospective study and analysis, hospitals saw increased revenue, profit, and compliance when clients were enrolled in the practice's Home Delivery program⁽³⁾. When the need for convenience is met, the results speak for themselves.

This white paper summarizes the challenges veterinary pharmacies are facing today and explores the data and proof behind this best practice for improving pharmacy performance.

AT A GLANCE:

Vetsource Home Delivery increases practice revenue, net income, and client compliance.

Issues and challenges of today's veterinary pharmacy

CURRENT SITUATION

Overall e-commerce has grown dramatically, reaching \$1.592 trillion, an increase of 21% versus the prior year⁽⁴⁾. The trend will likely continue as smartphones now represent 79% of mobile devices in the US,⁽⁵⁾ making mobile browsing and buying increasingly accessible and convenient.

Pet care purchasing is evolving as well. It was estimated in 2016 that spending would continue to increase and may reach over \$60 million by the end of the year. Spending for supplies and non-prescription medicines are forecasted to grow at a faster rate than spending on veterinary care.⁽⁶⁾ (See *Figure 1: Pet Care Spending in the US*). A recent study of more than 1,000 pet owners confirmed the increasing interest in purchasing medications outside of their veterinary hospital. At the time of the study, 32% of pet owners reported that they primarily purchased their pet medications through alternative channels, outside of their veterinary office, driven strongly by the need for convenience.⁽²⁾ However, 64% reported a high likelihood that they will purchase outside of the hospital in the future. This suggests that, as awareness and availability of medications outside of the practice grows, more consumers will choose these alternative channels.⁽⁷⁾ (See *Figure 2: Pet Owner Purchase Dynamics*).

Figure 1. Pet Care Spending in the US⁽⁶⁾

	2015 Actual (\$B)	2016 Estimate (\$B)	% Growth
Food	\$23.05	\$24.01	4.20%
Supplies/OTC Medicine	\$14.28	\$14.98	4.90%
Vet Care	\$15.42	\$15.92	3.20%
Live animal purchases	\$2.12	\$2.11	-0.50%
Pet Services: grooming & boarding	\$5.41	\$5.73	5.90%
Total	\$60.28	\$62.75	4.10%

Source: American Pet Products Association (APPA), 2016

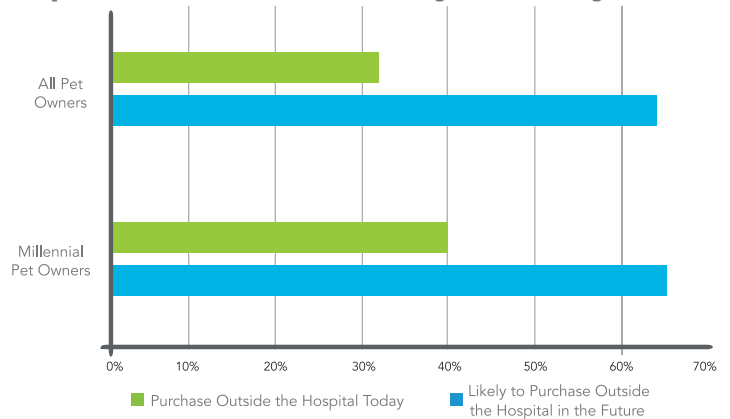
What's motivating the behavior?

CONVENIENCE IS 8X AS IMPORTANT AS PRICE

This shift has placed a heightened awareness and focus in the profession on the challenges of protecting client relationships and pharmacy revenue. 79% of pet owners who are purchasing in alternative channels are highly satisfied. Furthermore, this buying trend will likely continue as the number and percentage of millennial pet owners continue to grow. Today, 42% of millennial pet owners purchase their medications outside of the practice (compared with 25% of baby boomers), and 65% have a high likelihood of purchasing from alternative channels in the future.⁽⁷⁾

Figure 2. Pet Owner Purchase Dynamics^(2,7)

Importance of the Veterinary Pharmacy



Depending on the source, pharmacy sales account for almost 1/3 (27%–29%) of small animal practice revenue.^(1,8,9) Therefore, it is no wonder that many veterinary business owners are concerned about the shift in buying patterns.

In 2015, more than 33% of hospital owners reported a loss in revenue from heartworm preventives, 39% reported lost flea and tick product revenue, and 25% reported revenue loss with long-term use (chronic condition) medications. In an attempt to be more competitive, 54% of hospital owners reported lowering in-house pharmacy prices 7%–10%, depending on the product. Of those practice owners, 88% believe that this price change resulted in overall lower profit for the practice, as they did not increase client compliance or unit sales enough to compensate for the lost revenue.⁽²⁾

Growing revenue, profitability and compliance

Growing veterinary pharmacy revenue and profitability as well as client compliance are, nevertheless, possible in today's climate. In 2015, Vetsource participated in a large, multi-hospital, retrospective study and analysis that proved increased revenue, profit, and compliance when clients were enrolled in Vetsource Home Delivery.⁽³⁾

The research and analysis, conducted by an independent third party, was designed to evaluate the purchase behavior and practice impact of clients who order through Vetsource Home Delivery compared to similar clients who do not. Using parasiticide product sales per patient as the constant variable for measurement, the objectives included an evaluation of:

- Parasiticide purchases (number of doses purchased per patient)
- Veterinary visits (number of total visits per patient, number of well-visits per patient, total well-visit revenue per patient, and well-visit revenue per patient excluding parasiticides)
- Revenue (total per patient, parasiticide revenue per patient, and non-parasiticide revenue per patient)
- Profit impact (total and parasiticide profit per patient)

Methodology

In order to determine the overall success of Vetsource Home Delivery, data were gathered and analyzed from more than 100 practices. Two distinct groups of patients were analyzed:

(1) Patients with owners who purchased parasiticide products and were enrolled in Vetsource Home Delivery and (2) Patients with owners who purchased parasiticide products in-hospital and were not enrolled in Vetsource Home Delivery (See *Figure 3: Research Groups Defined*). Each group included more than 3,000 patients. To help ensure valid comparisons, the initial average parasiticide revenue per patient was similar across both groups, as was the average parasiticide profit per patient.

Figure 3. Research Groups Defined

HOME DELIVERY GROUP	Non-Home Delivery Group
Must have been an existing hospital patient with an owner who purchased at least one parasiticide product in-hospital in the 12 months prior to signing up for VetSource Home Delivery	Must have been an existing hospital patient with an owner who purchased at least one parasiticide product in-hospital in 2013
Enrolled in Home Delivery	Never enrolled in Home Delivery*
"Pre" period = 12-month period prior to Home Delivery enrollment date "Post" period = 12-month period after Home Delivery enrollment date	Pre/post analytic periods are 2013 and 2014, respectively
Pre-Period: Parasiticide Revenue per Patient Index: 100 Parasiticide Profit per Patient Index: 100	Pre-Period: Parasiticide Revenue per Patient Index: 99 Parasiticide Profit per Patient Index: 97
Sample size > 3,000 patients	Sample size > 3,000 patients

*Excludes referrals and deceased patients

For the Home Delivery group, the impact on purchases, revenue, profit, and veterinary visits was determined by comparing results from the 12 months prior to enrollment in Home Delivery to results from the 12 months post enrollment. For the Non-Home Delivery group, the "pre-" and "post-" analytic periods used were calendar year 2013 (pre-) compared to calendar year 2014 (post). Additionally, post results for the Home Delivery group were directly compared to post results for the Non-Home Delivery group.

Findings

PARASITICIDE DOSES PURCHASED

Pet owners with patients in the Home Delivery group purchased a net average of 8.9 more parasiticide doses per patient in the 12-month post-enrollment period than did owners of patients in the Non-Home Delivery group post-period. This represents 140% more doses purchased in the Home Delivery group. In addition, over the 12-month period, the number of purchases in the Home Delivery group grew 57%, while the number of purchases in the Non-Home Delivery group actually decreased 43%. This higher number of doses purchased by the Home Delivery group may be assumed to translate to an increase in home-usage compliance.

VETERINARY VISITS

A common concern regarding Home Delivery is the negative impact it may have on veterinary visits, especially well-pet visits, as pet owners no longer need to drop by the hospital in order to purchase products. To better understand these dynamics, a thorough evaluation of hospital visits was included as part of this retrospective analysis.

While the data showed that the absolute number of visits, both total and well-pet visits, did decrease in both groups during the analysis periods, the more important measurement of revenue per visit showed that the total revenue per visit increased 31.5% (+\$35 per patient) in the Home Delivery group, while it remained relatively flat (-0.8% or -\$1 per patient) in the Non-Home Delivery group, for a net improvement of +\$36 per patient per visit when enrolled in Home Delivery. At the end of 12 months, the average revenue per patient per visit was 16% higher in the Home Delivery group versus that of the Non-Home Delivery group.

REVENUE

Driven by the significant increase in the number of parasiticide doses purchased in the Home Delivery group, the parasiticide revenue per patient grew 67% (+\$79) in the Home Delivery group while it declined 42% (-\$49) in the Non-Home Delivery group, for a net improvement of \$128 per patient with Home Delivery.

Total revenue per patient was 43% higher in the Home Delivery group versus the Non-Home Delivery group at the end of the 12-month analysis period (\$709 and \$479, respectively). Total revenue per patient did decline in both groups during the pre to post periods. However, it declined significantly less in the Home Delivery group (-5% vs. -21% for the Non-Home Delivery group) due to the Home Delivery group increase in parasiticide revenue.

PROFIT

Another common veterinary concern with Home Delivery is a lower margin percentage on product purchases versus in-hospital purchases, and the potential impact this may have on the profitability of the products sold. However, these data demonstrated that although margin percentages on parasiticides were lower in the Home Delivery group, the positive impact of Home Delivery on increased parasiticide compliance and revenue resulted in a 10% increase in profit dollars per patient.

Conversely, although margin percentages remained higher in the Non-Home Delivery group, the significant decrease in parasiticide purchases and revenues in this group led to a 41% loss in parasiticide profits. As a result, after 12 months, the Home Delivery profit per patient was 93% greater than the profit per patient in the Non-Home Delivery group.

Figure 4. Results Table

	HOME DELIVERY Group (% Change after 12 months)	Non-Home Delivery Group (% Change after 12 months)	HOME DELIVERY vs. Non-Home Delivery Group (Post-period comparison between the two groups)
DOSES PURCHASED			
Average # of Doses of Parasite Product Purchased	57.1%	-42.7%	140.0%
VISITS			
Average # of Visits	-26.9%	-20.4%	25.6%
Average # of Well Visits	-30.0%	-26.7%	27.3%
Average Revenue per Visit	31.5%	-0.8%	15.9%
REVENUE			
Total Revenue per Patient	-4.6%	-20.9%	42.7%
Parasite Revenue per Patient	66.9%	-41.9%	189.7%

Conclusions

Growing veterinary pharmacy revenue and profitability in today's climate is increasingly important and challenging. Implementing a best practice of enrolling clients in Vetsource Home Delivery will not only meet the pet owner's need for improved convenience, it will also improve the health of patients through compliance and can improve financial health of the practice through increased revenue and profitability.

ABOUT VETSOURCE

Headquartered in Portland, Oregon, Vetsource is a North American leader in the Home Delivery of companion animal pharmaceutical products and pet nutrition. Vetsource services more than 14,000 veterinary hospitals across the United States. The company integrates its technology solutions as seamless services to veterinarians so they can meet their clients' growing demand for convenient access to pet pharmacy products. The technology is tailored to help veterinarians enhance their veterinarian-client-patient relationships by supporting practitioners through professional pharmacy and technology services.

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