

**Merck Animal Health
and
Henry Schein Animal Health**

Present:

**The Merck-Henry Schein National Equine
Veterinary Economic Study**

Prepared by:

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www.ismypracticehealthy.com

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**Merck-Henry Schein National Equine Veterinary Economic Study
July 20, 2015**

By Edward L. Blach, DVM, MS, MBA and Andrew R. Clark, DVM, MBA

Merck Animal Health and Henry Schein Animal Health, with support from the American Association of Equine Practitioners (AAEP), conducted a national survey of AAEP member veterinarians with the following objectives:

- To learn about the current economic status of equine veterinary practice and the trends compared to recent years.
- To determine trends in key factors impacting equine practice revenues including number of clients, number of patients, number of patient visits, FTE's, and other related trends.
- To assess the current attitudes and challenges of veterinarians and their clients regarding demand and use of veterinary services and their recent trends.
- To assess the current management practices being used in equine practice in an effort to learn what is needed to help equine practices operate in a more profitable manner.

Background - 2013

Recent trends in equine veterinary medicine were predominantly negative. The recent AVMA Pet Demographic Study revealed a 32% decline in the number of horses in the United States between 2006 and 2012 based upon USDA data. AVMA data also showed a reduction in the annual income of equine veterinarians by 6.7% during that same period. In contrast, companion animal exclusive veterinarians saw an increase in annual income by 22.7% during the same period. Most other trends in the equine segment were similarly troubling. The industry needs help.

To compound these challenging trends, there was a general lack of quality equine veterinary economic data available with which to assess the practice trends, growth opportunities, needs, and risks of the equine veterinary sector. It was our objective to conduct the national veterinary economic study to identify challenges and to develop solutions for improving veterinary practices in the equine segment.

Methodology

The lead researcher was Edward L. Blach, DVM, MS, MBA and he was assisted by Andrew R. Clark, DVM, MBA. Drs. Blach and Clark have a long background in equine practice, market research, and practice management consulting and education. The data for this study was gathered from a sampling of AAEP member veterinarians, and descriptive statistics were used to illustrate the results. Much of this study focused upon trends in the responses for the years 2007, 2008, 2009, 2010, 2011, and 2012. It was our objective to illustrate the situation in equine veterinary practice from just before the Great Recession to the end of 2012.

Drs. Blach and Clark worked closely with Mr. Brett Whitehead of Merck Animal Health and Ms. Jeannie Jeffery of Henry Schein Animal Health and their teams, as well as the AAEP leadership to assemble, implement, and report the results of the study to the industry. It was the desire of Merck Animal Health and Henry Schein Animal Health to obtain the data and make it available to the entire industry for the benefit of the industry.

Results

Results of the Merck-Henry Schein Study will be released in two primary parts, Release 1 and Release 2. Each release will also have 3 discussion volumes (1, 2, and 3) that will highlight various impactful implications of the results from the study.

Release 1: A Summary of the Merck-Henry Schein National Equine Veterinary Economic Study. This release will provide a summary of the economic and attitudinal responses from the study with responses from practice owners, veterinary associates, academic veterinarians, industry veterinarians, retired veterinarians, and students.

Release 1, Discussion 1 will provide a summary of some impactful economic data from the study. This summary will focus on the economic situation in equine practice and some of the attitudinal responses from the various stakeholder veterinarians who responded.

Release 1, Discussion 2 will provide a summary of an 'average' equine practice and will discuss the economic situation as we see it in the data from the study. In brief, the equine veterinary economy is improving, but 2007 is not coming back any time soon.

Release 1, Discussion 3 will provide an overview of what has changed from 2007 to 2012, as well as examine the differing priorities that were revealed between Practice Owners and Veterinary Associates and what that means for equine veterinary medicine and the practices involved.

Release 2: A Summary of the Merck-Henry Schein National Equine Veterinary Economic Study. This release will provide a data summary of the economic trends and management practices in place according to the practice owners who responded in the study.

Release 2, Discussion 1 will provide a discussion regarding the economic situation in equine practice as it relates to management practices that are in place in the respondent practices, as related by the practice owners who responded.

Release 2, Discussion 2 will discuss opportunities seen in the data for practices by using management tools and business technologies that may not be currently in place.

Release 2, Discussion 3 will provide a recommendation from the authors, Drs. Blach and Clark, regarding three high priority areas for focused management efforts to have a maximal impact in improving the profitability and value of your practice.

All results will be available for download at www.ismypracticehealthy.com. Those who are interested can establish an account at this site, and they will receive notification of new releases as they occur, in addition to notification of future studies and data that is available. Users can also submit questions and make comments regarding material contributed by Drs. Blach and Clark.

About www.ismypracticehealthy.com: This site is owned by Drs. Blach and Clark and is intended to provide a community for people interested in veterinary practice management to learn about practice management, find data that relates to best practices in veterinary practice management, and to be able to enter a long-term discussion intended to help veterinary practice owners to improve the profitability and value of their practices. By doing so, they are ensuring the success of their practice, which ensures that the animals being cared for receive quality care and the employees and their families are afforded more stable employment opportunities. Membership in the site is currently free.

Release 1, Discussion 3

Merck Animal Health and Henry Schein Animal Health, with support from the American Association of Equine Practitioners (AAEP), conducted a national survey of AAEP member veterinarians with the following objectives:

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- To assess the current management practices being used in equine practice in an effort to learn what is needed to help equine practices operate in a more profitable manner.

This discussion will provide an overview of what has changed from 2007 to 2012, as well as examine the differing priorities that were revealed between Practice Owners and Veterinary Associates and what that means for equine veterinary medicine and the practices involved.

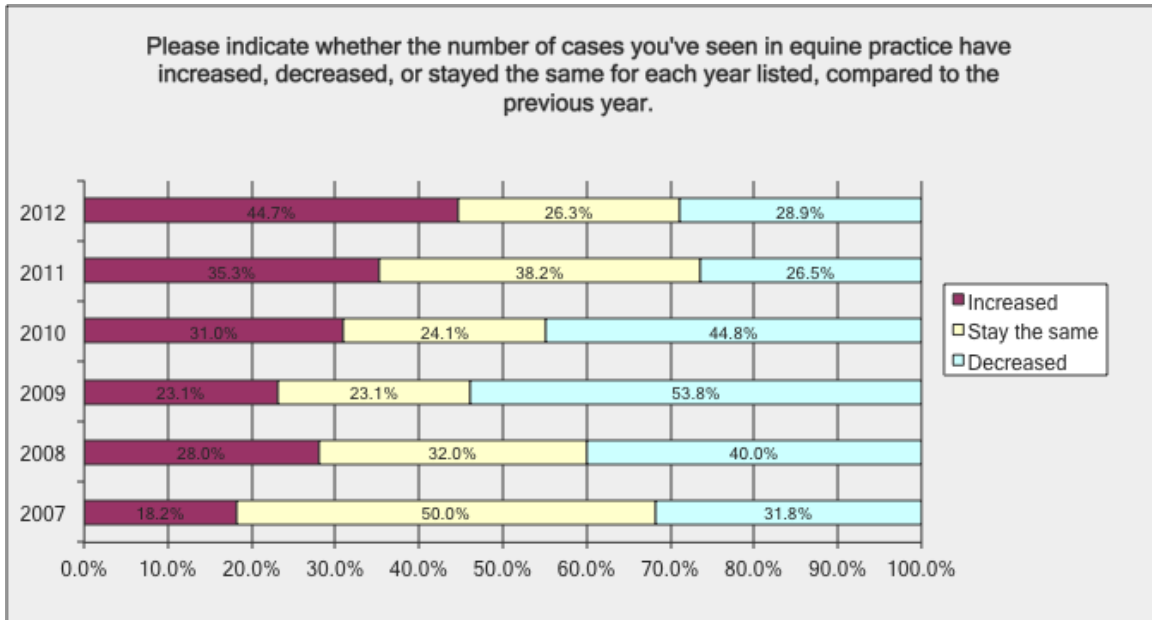
Executive Summary

1. In 2007, the equine economy was robust and energetic. Growth of equine practices occurred almost effortlessly, and as a result, there was much less attention paid to managing practices closely for profitability. There seemed to be ample business and cash flow to overcome any level of need for adopting change or improved management. Less attention was paid to customer service, as there were always more clients if one or two weren't satisfied. As a profession, few practices were focused on client communications and customer service. Instead, many practices were focused on the next piece of diagnostic technology or the next treatment modality that could be used to develop a new enterprise within the practice. As we noted in Release 1, Discussion 2, times have changed. The 2007 economy is gone. Though the economy has rebounded to some degree, the economy is far different now than in 2007, and due to market forces such as decreased numbers of horses and numbers of clients, the 2007 economy will not return any time soon.

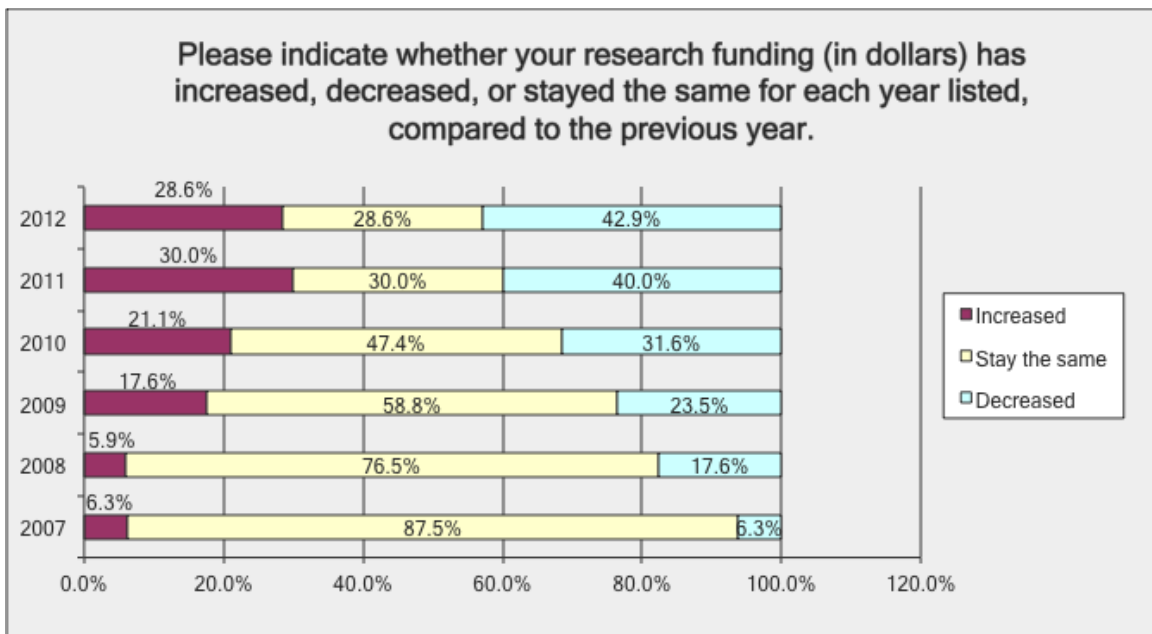
As was previously discussed, in 2008-2010, total revenues, number of clients, number of patients, and number of invoices or transactions all declined significantly, and in most practices was still not back to 2007 levels by 2012.

2. Academic veterinarians reported an apparent trend towards an increase in the number of cases seen from 2007 to 2012. The reason for this is

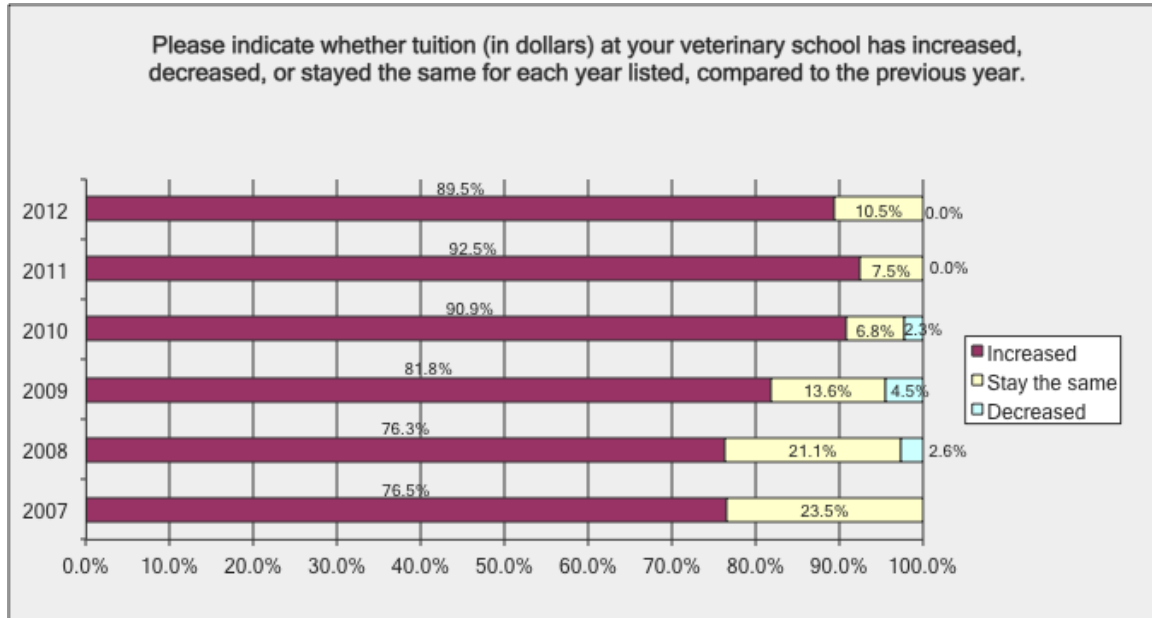
unknown, and is in some ways contradictory to case flow in private equine practices.



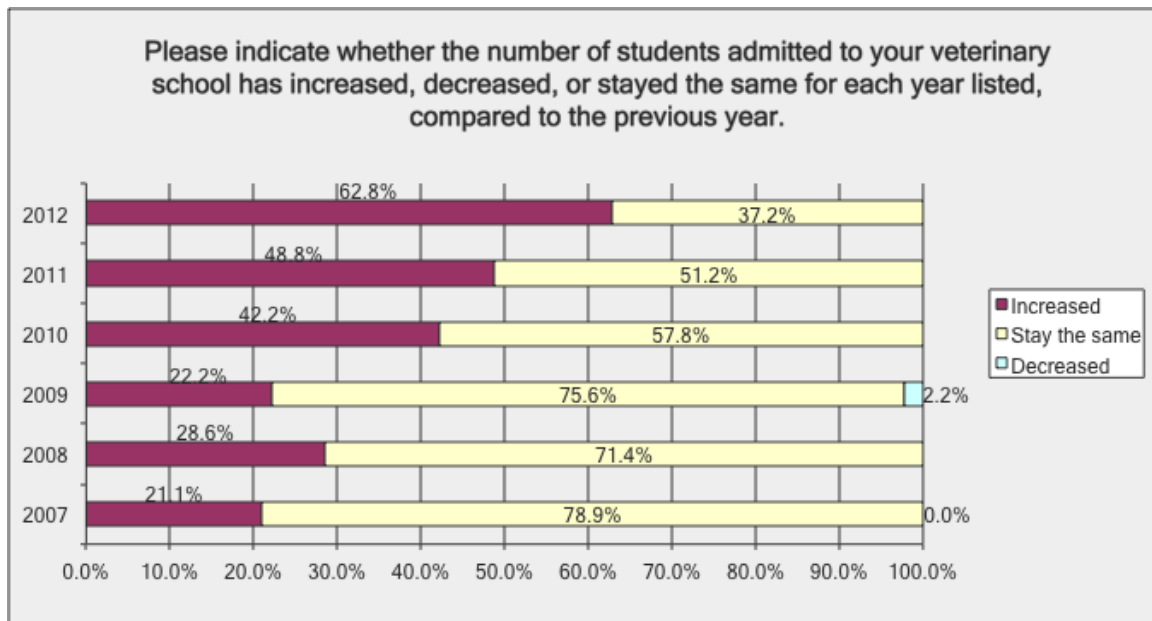
3. Academic veterinarians also reported a trend in research funding that appears to show that some have a definite trend of increasing funding from 2007 to 2012, while another segment shows a definite trend towards decreasing research funding. The 'stay the same' group appears to be the group that has decreased significantly in research funding from 2007 to 2012.



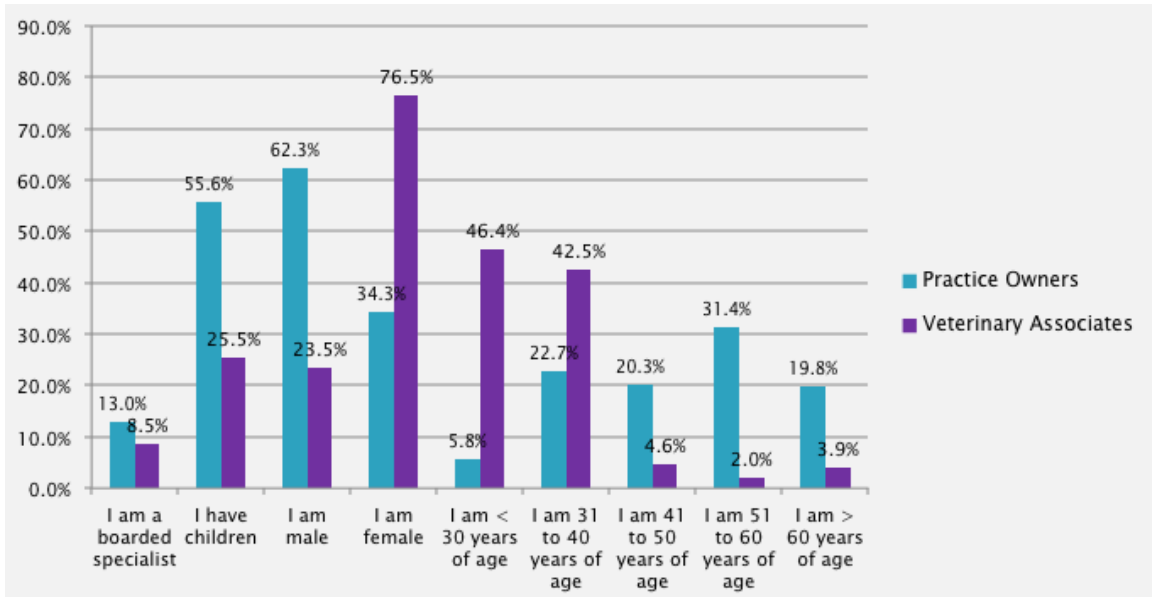
4. Academic veterinarians also reported a continued overwhelming trend towards increased tuition for veterinary colleges from 2007 to 2012.



5. Academic veterinarians reported an increasing trend towards admitting more students to the professional veterinary programs from 2007 to 2012.



6. When looking at how Practice Owners and Veterinary Associates differ, it wasn't surprising to see the differences in demographics of the two groups. See charts below.

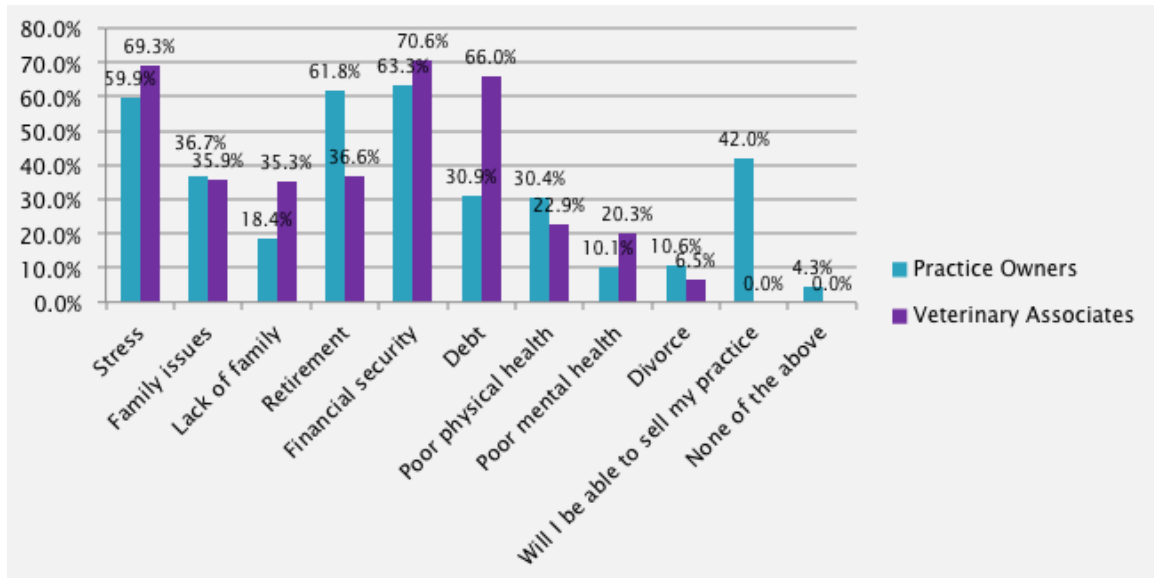


Practice Owners were older, more likely to be male, with children, when compared to Veterinary Associates.

7. Compensation differences amongst Practice Owners and Veterinary Associates were significant. See table below.

	Mean	Median
Owners	\$160,206	\$90,000
Associates	\$68,289	\$60,000
Academics	\$72,047	\$52,500
Industry	\$114,182	\$90,000

8. When asked, "As a result of your veterinary career, which issues concern you personally?", Practice Owners and Veterinary Associates differed in their priorities. See chart below.



Practice Owners had as their greatest concerns Financial Security, Retirement, and Stress, with “Will I be able to sell my practice?” just under those. Veterinary Associates had as their greatest concerns Financial Security, Stress, and Debt. Note also that nearly twice the percentage of Veterinary Associate selected “Lack of Family” and “Poor Mental Health” as compared to Practice Owners in the same categories.

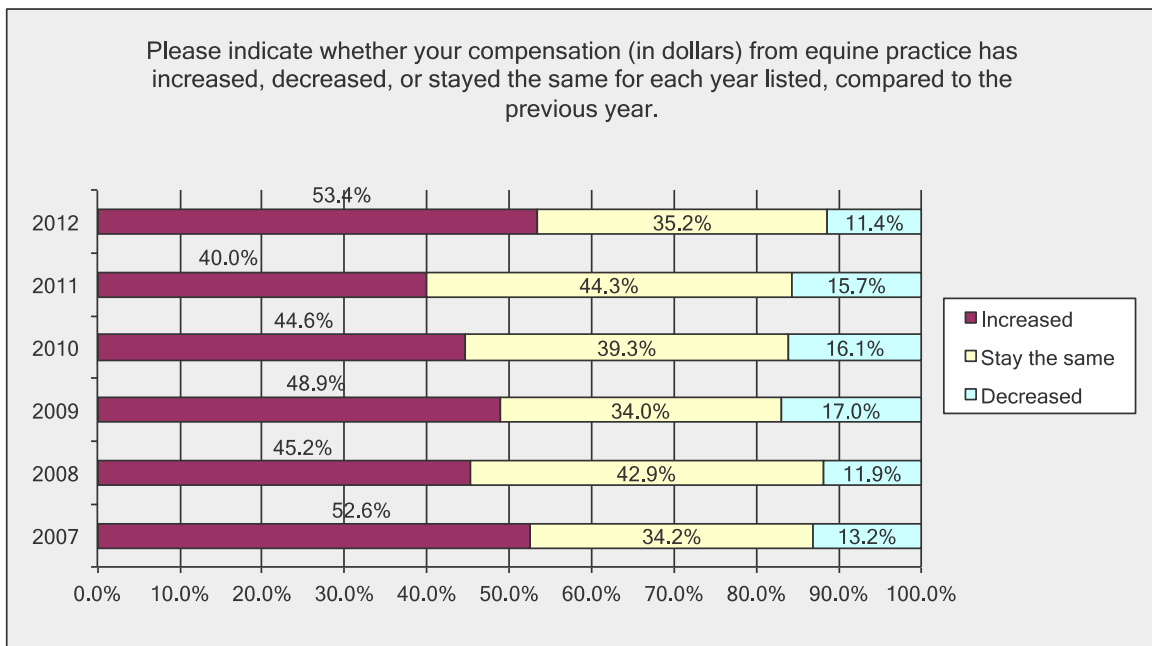
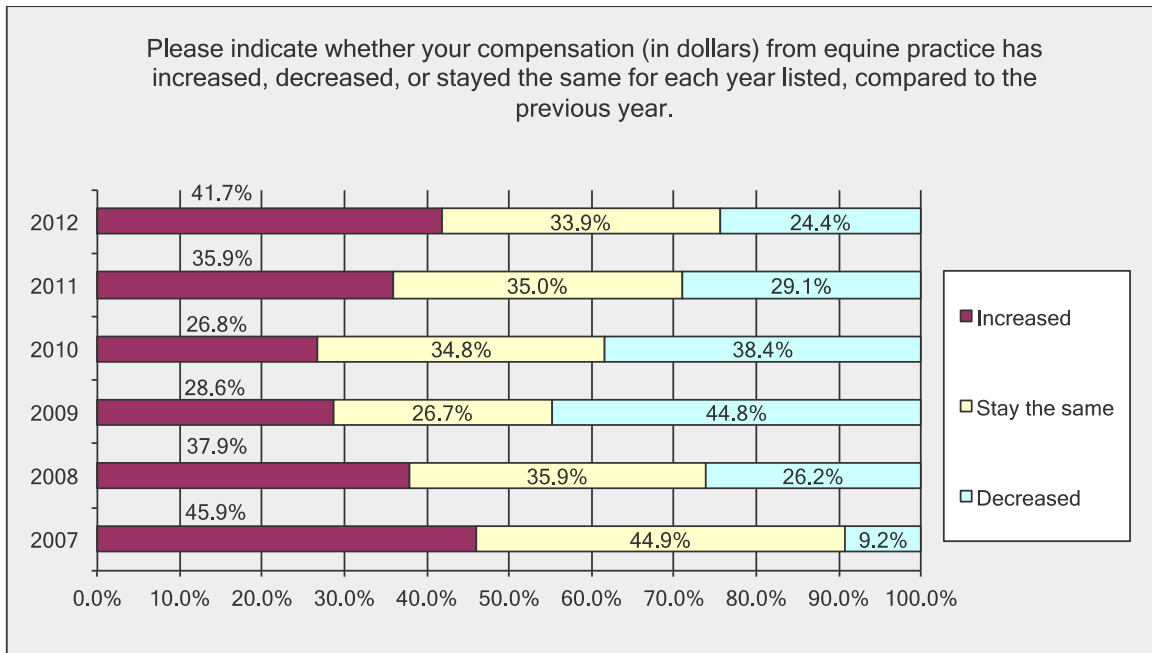
These differences, along with the compensation differences noted above, may illustrate a path towards helping both Practice Owners and Veterinary Associates to get what they want, relative to their concerns.

Whereas practice owners are concerned about Financial Security, Retirement, and Stress, as well as “Will I be able to sell my practice?”, if they can successfully transition ownership of their practice to a Veterinary Associate, the transaction could help solve their concerns. In addition, whereas the Veterinary Associates are concerned about Financial Security, Stress, and Debt, if they were able to successfully acquire ownership of a practice, the potential increase in compensation associated with ownership could be helpful in paying off debts and relieving some of the financial stresses that are apparent amongst Veterinary Associates.

Thus, it would appear that Practice Owners and Veterinary Associates, though having different concerns, have every incentive to work together to develop successful ownership transitions of practices that will help both parties accomplish their objectives and needs.

- Practice owners took the bulk of the economic decline as shown in their significant decline in compensation from 2007 through 2012, whereas

veterinary associates saw very little change in compensation during that time, and if anything, some saw their compensation increase, in spite of the difficult economy.



10. In summary, key drivers of equine practice revenue and health such as number of horses, number of clients, number of patients, and number of

invoices declined between 2007 and 2012, with some rebound late in that time period. Drivers of debt for students (tuition) increased, and veterinary colleges added more students.

Practice Owners and Veterinary Associates shared similar concerns about Financial Security and Stress. Differences between Practice Owners and Veterinary Associates included higher compensation for Practice Owners, higher concern about retirement and 'Will I be able to sell my practice?'. Veterinary Associates were more concerned about debt, 'lack of family', and 'mental health'.

The differences revealed regarding concerns of Practice Owners and Veterinary Associates provides a significant opportunity to help both parties achieve their objectives and to solve their concerns. It will require the cooperation of both parties to implement transition plans that provide a win-win solution. Much more discussion about this topic will be forthcoming at www.ismypracticehealthy.com in the coming weeks and months.