

# Embracing the Open Pet Pharmaceutical Transition

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## The Shifting Pet Pharmacy Revenue

In March 2015, leading animal health industry consultancy, Brakke Consulting, Inc., in collaboration with the leading U.S. animal health creative marketing agency, Trone Brand Energy, published a comprehensive multi-audience study measuring shifting veterinary pharmaceutical revenues and purchase locations entitled, “2015 Pet Pharmaceutical Market Study.” The study collected responses from U.S. companion animal veterinarians, U.S. pharmacists and U.S. dog and cat owners.

One of the major findings from the study is the severity of revenue shifting of both pet prescription and over-the-counter drugs experienced by veterinarians. Out of the over 500 veterinarians surveyed, 71% reported decreased prescription products sold through their own pharmacies. 54% of veterinarians have lowered their overall pharmaceutical prices to better compete with online and brick-and-mortar retailers and pharmacies offering the same products at higher volume pricing.

The battle for pet pharmaceutical sales has grown to a point where brick-and-mortar retailers and Internet/mail order

retailers accounted for a combined 42% of the nearly \$8 billion in national pet medication sales in 2014 according to a report by the market research firm, Packaged Facts. The same report forecasts that pet pharmaceuticals will be one of the highest growth areas of pet retailing over the next 10 years due to increased over-the-counter drugs and interest by chain retailers.

While the majority of dog and cat owners still purchase directly from their veterinarian’s clinic pharmacy, awareness and availability of pet pharmaceutical products outside of the familiar clinic channel will continue to grow as national retailers increase their marketing efforts with dog and cat owners. Outside of marketing, Congressional legislation, known as The Fairness to Pet Owners Act, mandating veterinarians to offer written prescriptions for all pet prescriptions may expedite the open pet pharmaceutical transition in the coming years.

The following white paper will summarize the ongoing legal debate around the portable pet prescription movement, highlight the pet pharmaceutical sales decline reported by veterinarians and their coping strategies in order to provide valuable insight for animal health pharmaceutical manufacturers that could help them better align their marketing and educational efforts with this critical industry transition.

# 1 Tracking the Portable Pet Prescription Movement



Since the release of the 2015 Pet Pharmaceutical Market Study, several new events have occurred around the related topic of portable pet prescriptions. The debate centers on if veterinarians should be legally mandated to provide dog and cat owners a written prescription and the option to fill their pet's prescriptions outside of their veterinary clinic pharmacy.

Unlike human health physicians, most veterinarians run their own clinic pharmacy that dispenses pet pharmaceuticals directly to dog and cat owners online, on-site or both. As of April 2016, 36 states have adopted laws, regulations or policies that require or ethically compel veterinarians to provide a written prescription at the request of a pet owner. Yet, many dog and cat owners are still unaware of their options or feel uncomfortable requesting a written prescription to fill outside of their veterinary clinic.

In an effort to ease growing tensions between veterinarians and retail pharmacists, the National Association of Boards of Pharmacy (NABP) began requiring all human pharmacies dispensing pet pharmaceuticals to have access to at least one current reference manual or textbook on veterinary drugs recommended by the American Veterinary Medical Association (AVMA) in November 2015. The change amends the NABP's Model State Pharmacy Act calling for pharmacists to have access to appropriate resources to dispense appropriately and provide proper patient care.

The Federal Trade Commission recently weighed in on the portable pet prescription debate issuing a 109-page staff report entitled "Competition In the Pet Medications Industry: Prescription Portability and Distribution Practices" in May 2015 analyzing the portable pet prescription debate. The report concluded with the statement that the FTC "believes that improved customer access to portable prescriptions would likely enhance competition in the pet medications industry."

The FTC is no stranger to portable pet prescriptions leading the legislative efforts since 2011 to pass a bill known as the "Fairness to Pet Owners Act" that would legally require veterinarians in all states to provide dog and cat owners a copy of their pet's prescription, whether this is requested or not prior to filling or dispensing the prescription.

On April 29, 2016, the Congressional House subcommittee on Commerce, Manufacturing and Trade held a 90-minute hearing to explore the topic of pet prescription "shopping." Veterinarians and industry experts argued against the "Fairness to Pet Owners Act" bill citing safety concerns moving outside of the veterinary clinic and unnecessary regulation on a self-diagnosed "struggling" veterinary industry. The hearing ended with no official action and as of July 20, 2016, the bill has never moved beyond the House subcommittee to a vote during this session of Congress.

## Marketing Insight:

The FTC's report on the portable pet prescription movement is unlikely to lead to any tangible legislation by Congress in the near future. The simple truth is that a majority of states already compel veterinarians to provide portable pet prescriptions to dog and cat owners.

Consumer demand will eventually drive more of the pharmaceutical sales channel to human pharmacies. These pharmacists are highly interested in dispensing CVM approved pet medications and desire further education. This means marketers should begin to consider how they will provide Continuing Education opportunities for pharmacists. The process for CE approval is substantially different for human pharmacists than RACE approved CE for veterinarians. The marketing opportunities associated with ongoing education are also quite different. Getting ahead of this shift may provide a lofty competitive advantage.

# 2 Diminishing Veterinary Pharmacy Revenues



As part of the 2015 Pet Pharmaceutical Market Study, we asked veterinarians to consider their own pharmacy revenues from the past 12 months and project their pharmacy revenues for the next 12 months. The results for two vet clinic categories: chronic medications (long-term) and acute medications (short-term) pharmaceutical revenues are outlined in the charts below.

Pharmacy Category Name	% Who Experienced DECREASED Revenue in Past 12 Months	% Who Experienced STABLE Revenue in Past 12 Months	% Who Experienced INCREASED Revenue in Past 12 Months
<b>Acute Medications</b>	10%	55%	35%
<b>Chronic Medications</b>	25%	51%	24%

The first chart shows the striking differences between reported pharmacy revenues between medications for acute and chronic conditions. Nearly two-thirds of veterinarians reported either declining or stable revenues for acute medications compared to over three-quarters for chronic medications in 2014. The key takeaway from this chart is the 15% difference in veterinarians reporting decreased revenue from chronic condition medications over acute condition medications.

Pharmacy Category Name	% Expecting DECREASED Revenue in Next 12 Months	% Expecting STABLE Revenue in Next 12 Months	% Expecting INCREASED Revenue in Next 12 Months
<b>Acute Medications</b>	7%	55%	39%
<b>Chronic Medications</b>	24%	43%	34%

The second chart details how veterinarians projected their then-future 2015—2016 pharmacy revenues. Nearly two-thirds of veterinarians expected either declining or stable revenues for acute or chronic medications. But, the biggest difference here is that 17% more veterinarians reported expected decreases in chronic condition medication revenues in 2015 over their same expectations for acute condition medications.

The underlying story behind both charts is that veterinarians are experiencing lower revenues associated with chronic condition medications than acute condition medications, and they expected that this would continue to remain lower through 2015—2016.

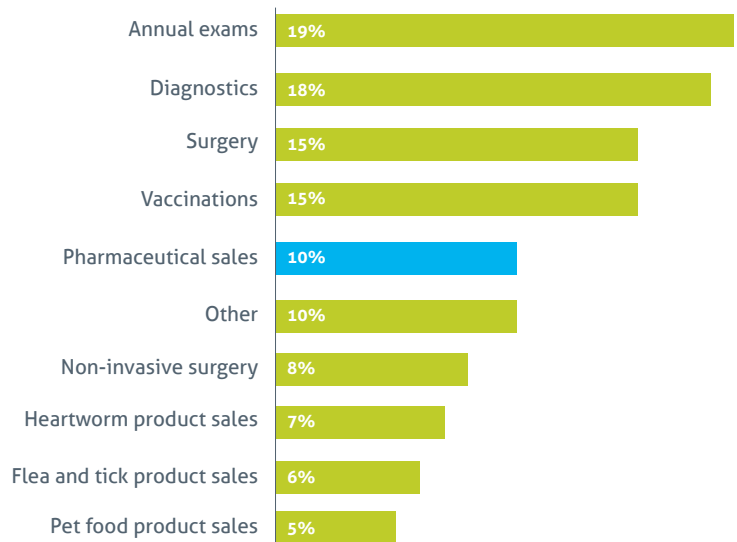


In the time since the 2015 Pet Pharmaceutical Market Study was published, leading veterinary industry news source, dvm360, released the results of their latest “State of the Veterinary Profession” report in January 2016. Surveying 762 industry responses, the triennial report measured the business health, practice philosophies and revenue categories of clinics across the country.

Asked about their 2015 veterinary clinic service offerings compared to 2012, veterinarians reported they are now offering more services around diagnostics, dentistry, surgery and consulting. At the bottom of the list were prescription pharmaceutical product sales, non-prescription pharmaceutical product sales and boarding services.

Compared to annual pet exams (19%) and diagnostics services (18%), pet pharmaceutical sales drive only 10% of the average veterinary clinic’s annual gross revenues. The chart below shows how much key veterinary services represent of annual gross revenues according to the dvm360’s “State of the Veterinary Profession” report.

Approximately what percentage of your practice’s annual gross comes from each of the following categories?

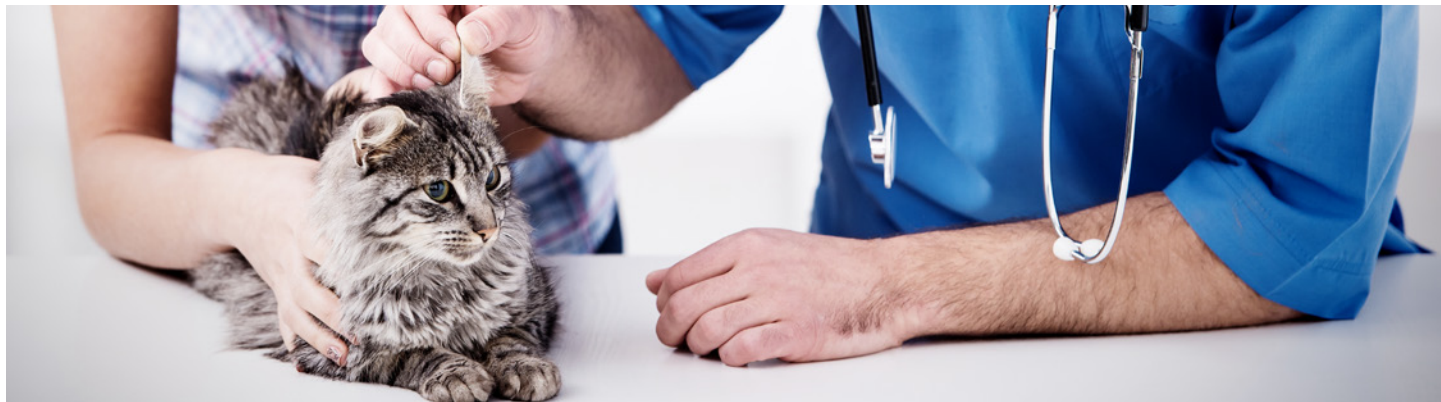


### Marketing Insight:

The majority of veterinarians have experienced either stable or declining pet pharmaceutical sales revenue in recent years. The majority of veterinarians do not expect pharmaceutical sales growth will arrive in the near future. Instead, veterinarians are bolstering their clinic services with specializations like diagnostics services, new surgeries and nutritional consulting to make up the difference.

Animal health pharmaceutical manufacturers should consider prioritizing marketing efforts based on featured services or focused areas of growth for each clinic. This would provide greater top-of-mind relevancy to veterinarians and practice management. For instance, if a clinic is focusing on growing their diagnostic services, uncover how your product offering can dovetail in aiding the clinic’s diagnostic growth desire. Going forward clinic pharmacy success will require incorporating an online pharmacy offering for their clients. Manufacturers have an opportunity to help veterinarians maintain and potentially grow the clinic’s pharmacy sales by ensuring they have a seamless online pharmacy and the tools to effectively market this offering to pet owners.

# 3 Veterinary Pharmacy Revenue Loss Coping Strategies



As part of the 2015 Pet Pharmaceutical Market Study, veterinarians were asked their view on the portable pet prescription debate.

Surprisingly, over two-thirds either supported or remained neutral on portable prescriptions given the potential to further erode veterinary clinic pharmacy revenue. Veterinarians stated that nearly half of their clients would request written prescriptions once dog and cat owners become universally aware of portable pet prescriptions.

How would veterinarians cope if portable pet prescriptions become federally mandated or had more awareness among dog and cat owners in the 36 states they are already legal?

As part of the 2015 Pet Pharmaceutical Market Study veterinarians reported how likely they would be to adopt various vet clinic strategies. The top declining pharmacy strategies included:

- Seeking more vet exclusive pharmaceutical products
- Better managing pharmacy inventory
- Offering new services outside of the veterinary pharmacy
- Seeking animal health pharmaceutical manufacturer support

## Marketing Insight:

According to the 2015 Pet Pharmaceutical Market Study, veterinarians are looking to animal health pharmaceutical manufacturers to help them compensate for lost pharmacy revenue. Perhaps the most obvious request is for manufacturers to develop additional veterinary exclusive products. Interestingly both veterinarians and pet owners are interested in injectable formats.

A less obvious solution requires veterinarians to become more transparent and collaborative with their pet owning clients. Pet owners, especially the newer millennial generation desire sincere open collaboration in the care of their pet. This means veterinarians must stop being afraid of Dr. Google and embrace the fact that those seeking information are their most valuable clients. Manufacturers have an opportunity to develop materials that help enable veterinarians and their staff engage in a more collaborative clinic, pet owner and pet environment. Establishing this partnership will in turn lead to increased clinic revenue. The alternative is lost clients.

The future of the veterinary pharmaceutical industry's primary sales channel may not be yet fully predictable, but veterinarians and pharmacists will always need the support of animal health manufacturers to be able to provide the best possible care for pets.

Whether the portable pet prescription movement becomes a reality in the near future or not will do little to reverse the current trend of veterinarians seeking alternatives to their decreasing clinic pharmacy revenues. The veterinary industry will continue to evolve either way. One of the key opponents of the Fairness to Pet Owners Act, Representative Kurt Schrader (D) from Oregon, summarized why most veterinarians chose their field during the April 29, 2016 Congressional hearing:

“I’ve been a veterinarian for 35 years. I could have made a lot more money in a lot of other professions. ... I chose veterinary medicine because I love working with animals. The prescription piece is a small part of what we do. ... It’s not about making a lot of money. It’s about providing the best health care to the pet.”