



VETERINARY INDUSTRY UPDATE

Letting go of the myths to grasp the future

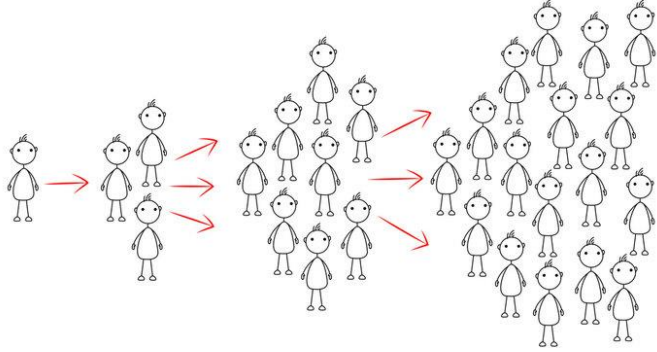
Matthew Salois, PhD

President, VMG

2023 Annual VMG Strategic Opportunities Committee Meeting

There's a lot of "numbers" floating around..

Workforce Expansion



Relax the VCPR



Mid-Level Practitioner



Pet Population



Myths, Explanations, and Predictions:

- Knowing our past and understanding our present is key to forecasting our future.
- If the starting point is wrong, the ending point isn't going to be right either.
- This means forgetting the fallacies and the mistaken beliefs that are driving today's discussions.



MYTHS
BUSTED

THE MYTHS

1. The great pandemic pet adoption boom
2. “There are fewer vets and more pets”

MYTH #1:

The pandemic pet adoption boom



Local experiences do not add up to the national reality

“Oversimplification tends to take a partial truth and make it all powerful”

Demand for pets is soaring during the pandemic.



Veterinarians reporting increase in demand for service as pet adoptions sky rocket during pandemic

theguardian

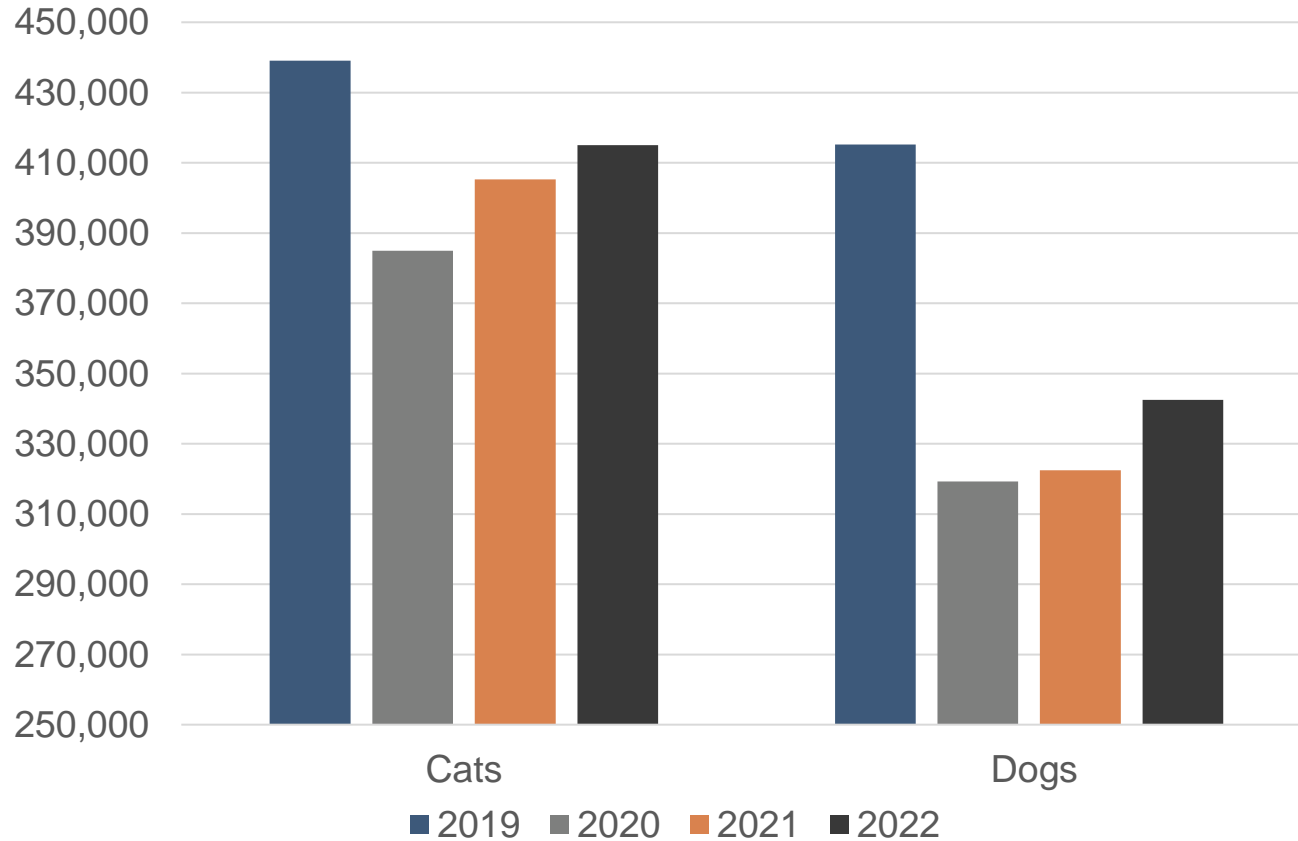
Bloomberg

Pet-Care Crisis: A Shortage of Workers, an Increase in Adoptions and Systemic Problems Have Led to Long Waits for Appointments at Local Animal Hospitals

Was there really a pet adoption boom? The shelters say “NO”!

Pandemic new pet boom myth busted; Adoptions lower 2021-22 **PETFOOD INDUSTRY.com** TIM WALL NOVEMBER 8, 2022

Total Adoptions for the Year by Species



Was the Pandemic Dog Boom a Myth?

Is New York City really overrun by barking hounds? The data might tell a different story.

The New York Times

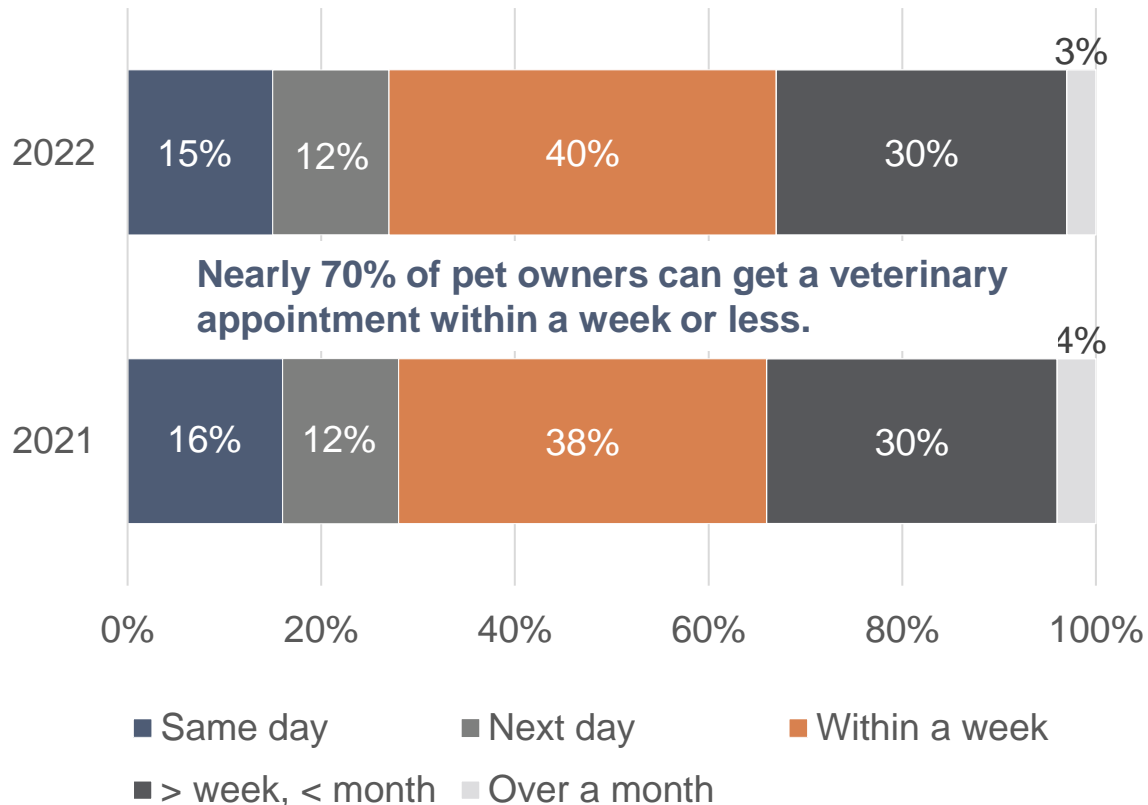
Busting the pandemic pet boom myth:

- Number of pets adopted is actually declining over time.
- The pandemic impacted dogs far worse than cats.

Source: Shelter Animal Counts (Courtesy of Samantha Hill)

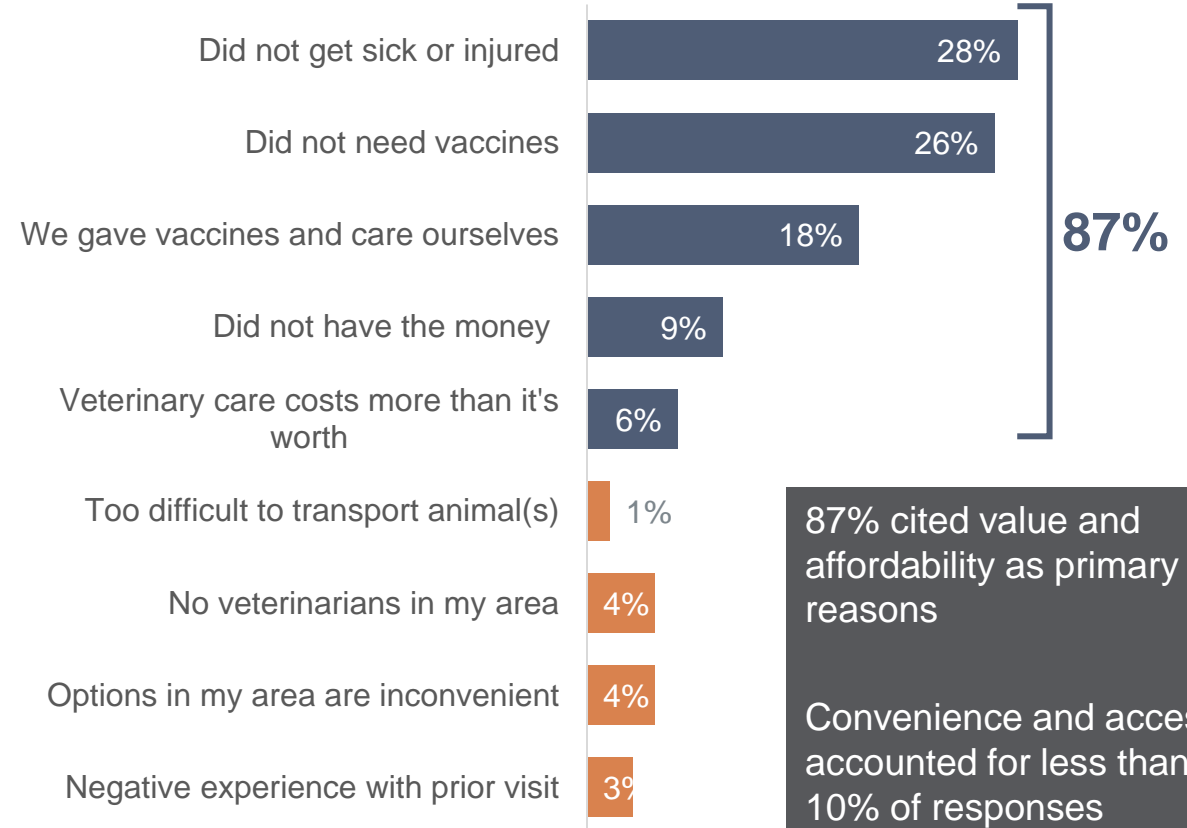
Stories of long waits times were grossly exaggerated

If a client calls to schedule a routine, non-emergency exam for their pet, what is the approximate wait time for the appointment?



Source: Brakke Consulting Survey (2022)

Primary reason for not seeing a veterinarian



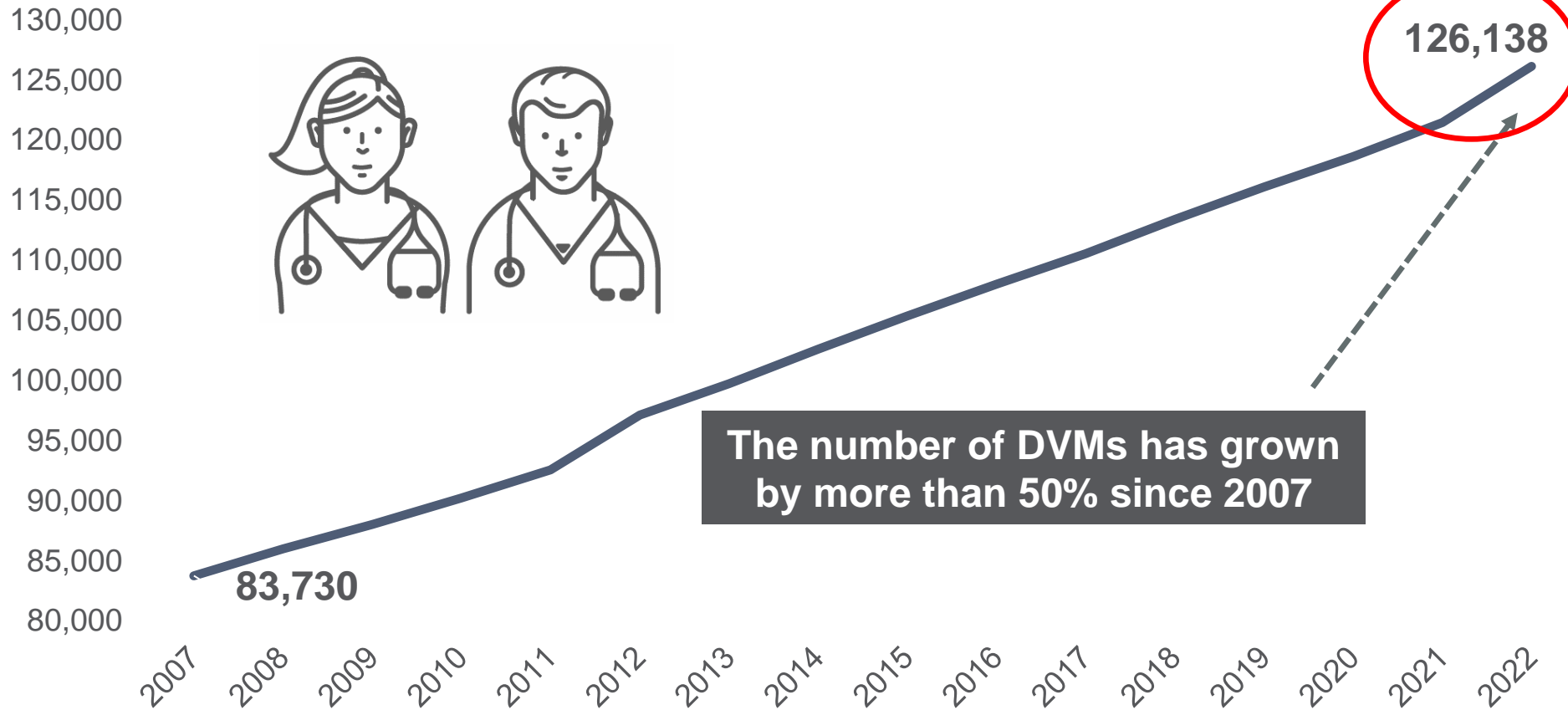
MYTH #2:

There are fewer vets and more pets



There are more veterinarians in the U.S. every year

Total Number of Practicing DVMs in the United States

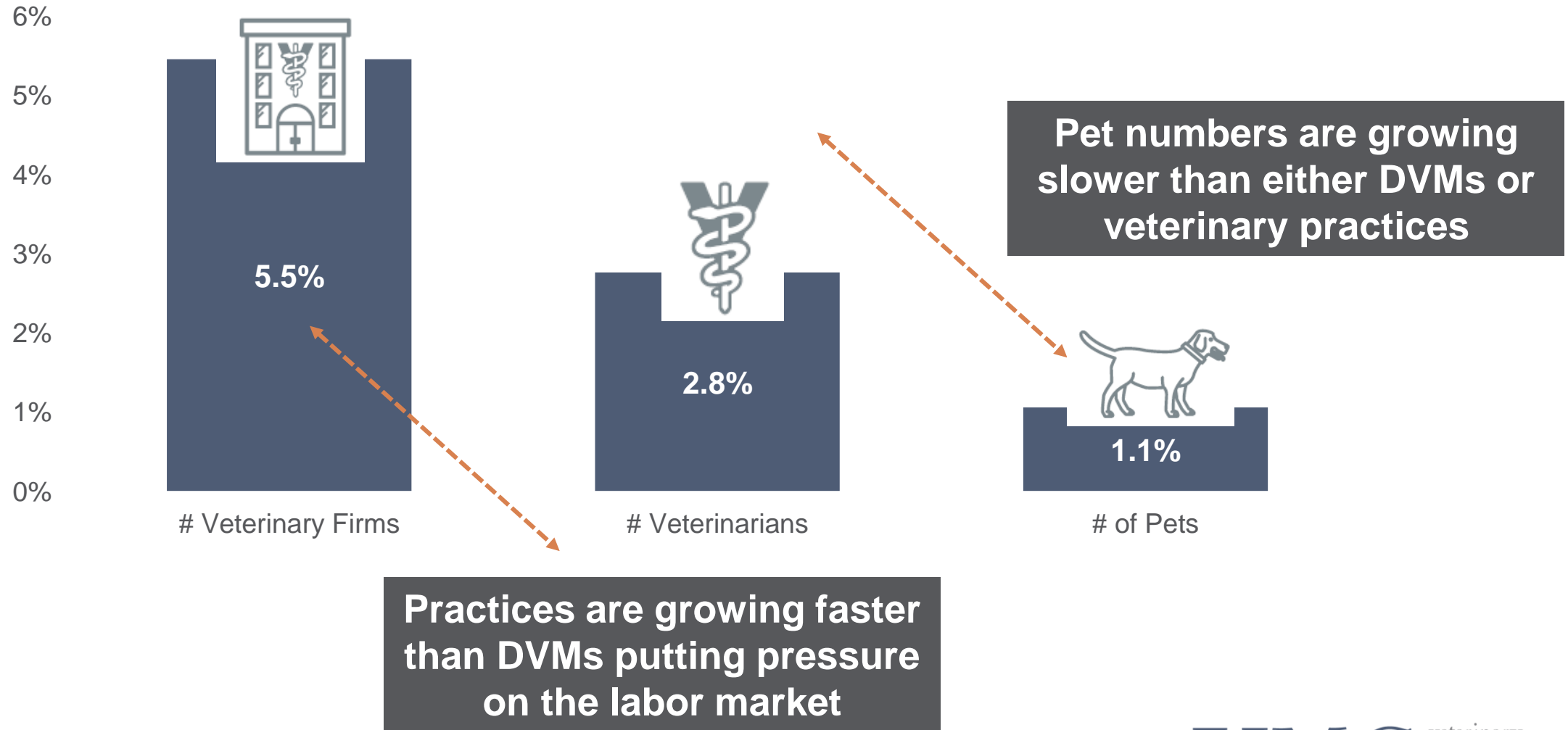


Consider this:

- Avg growth of 2.8% per year.
- # DVMs grew 3.8% in 2022.
- This was a 10-year record high for annual growth.

Not enough veterinarians or too many practices?

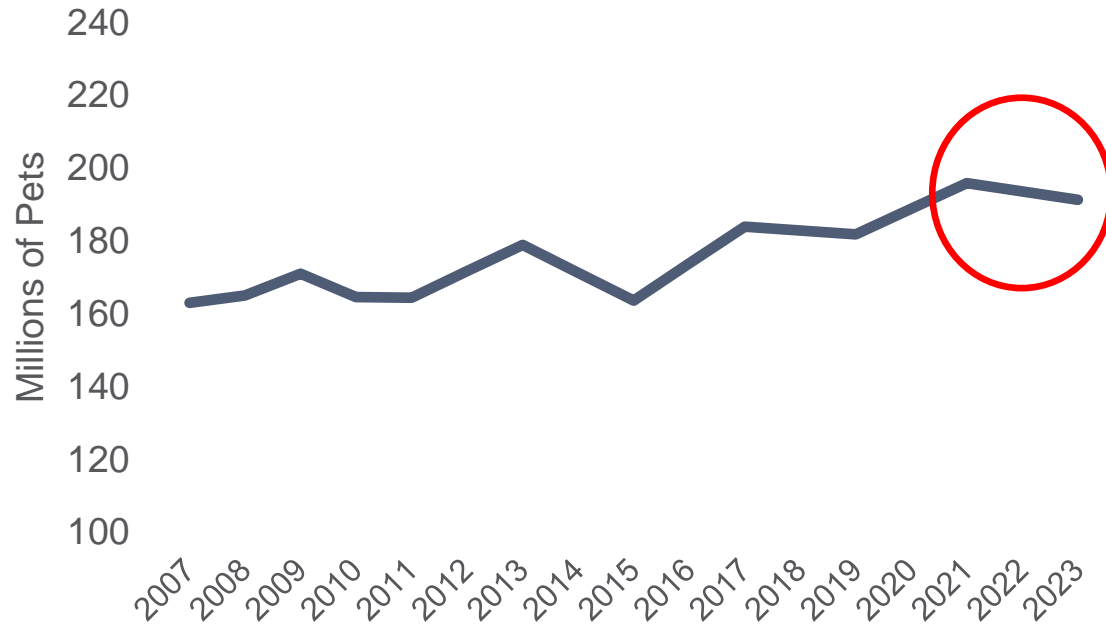
Average Growth Rates (2002 – 2023)



Source: U.S. Business Census (veterinary firms); AVMA (veterinarians); APPA (pets)

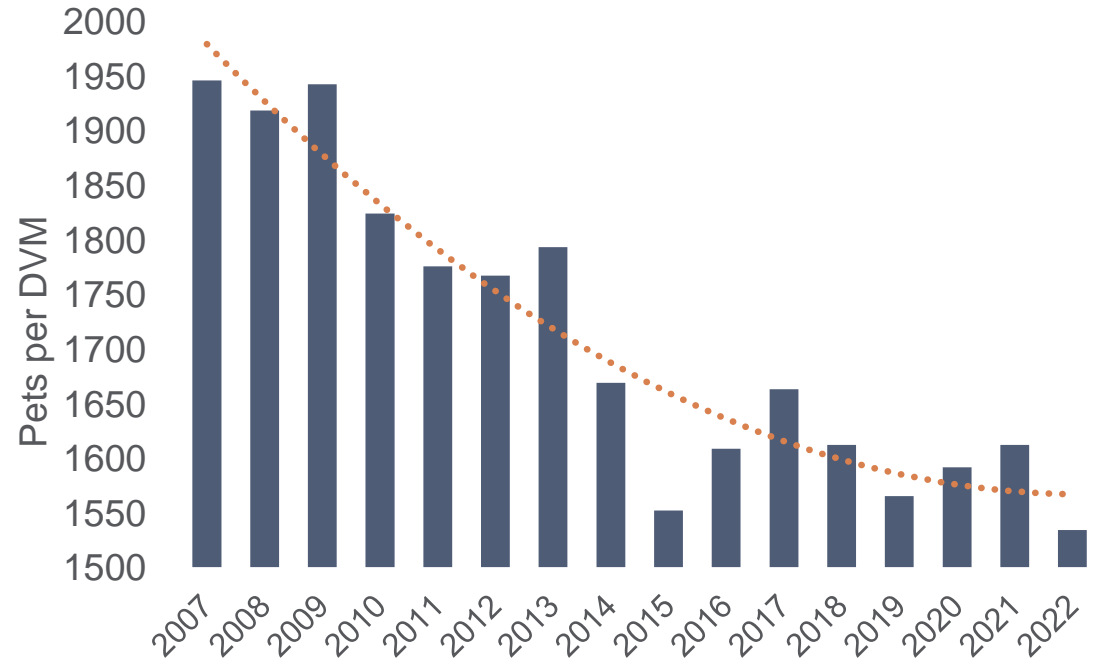
The number of DVMs is rising faster than the number of pets

Total Cats and Dogs in the U.S. (Mil)



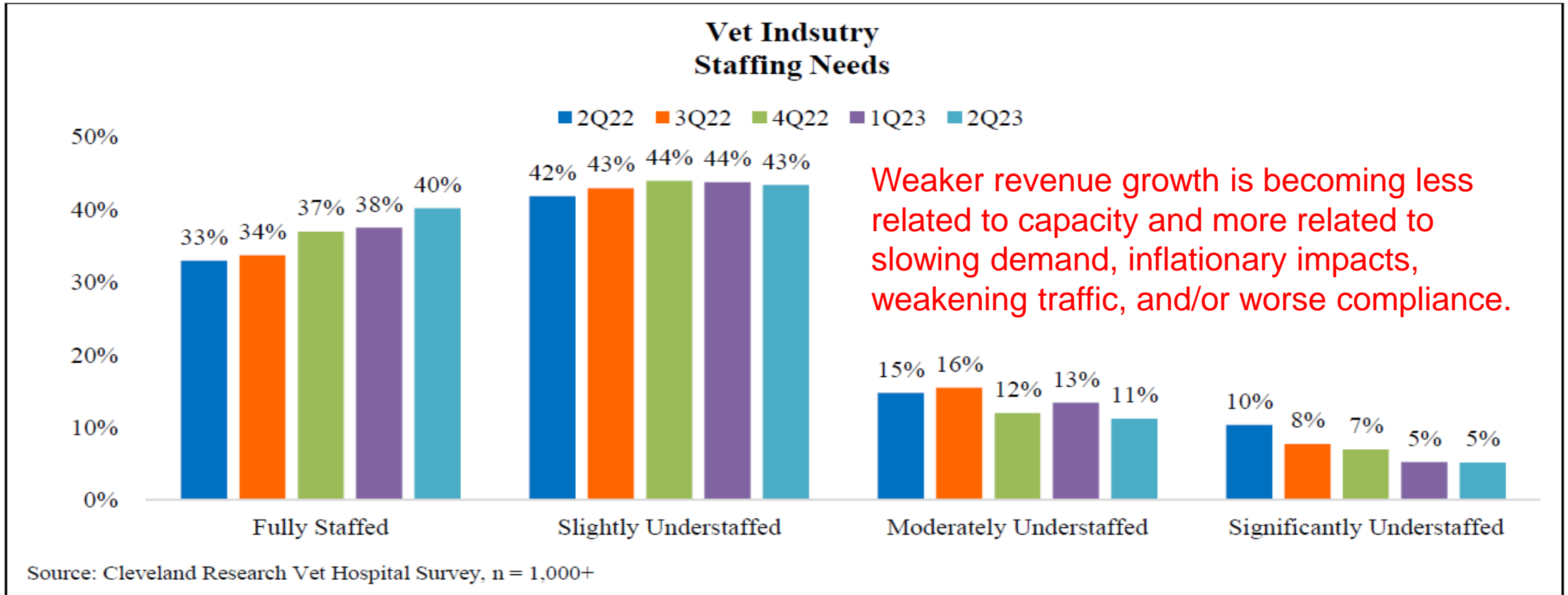
The number of pets in the U.S. is estimated to fall in 2023 vs. 2022

Pets (dogs & cats) per DVM



There are 20% fewer pets per DVM in 2022 than in 2007

83% of hospitals indicate they are fully or nearly fully staffed!





EXPLANATION

THE EXPLANATIONS

1. Employee Turnover
2. Labor Force Participation
3. Labor Productivity

Why have employers struggled to find enough workers?

Demand for veterinary care

Increased demand is driving more business and more busyness.



1

Turnover

High rates of veterinary staff leaving the practice causing significant disruption.

2

Participation

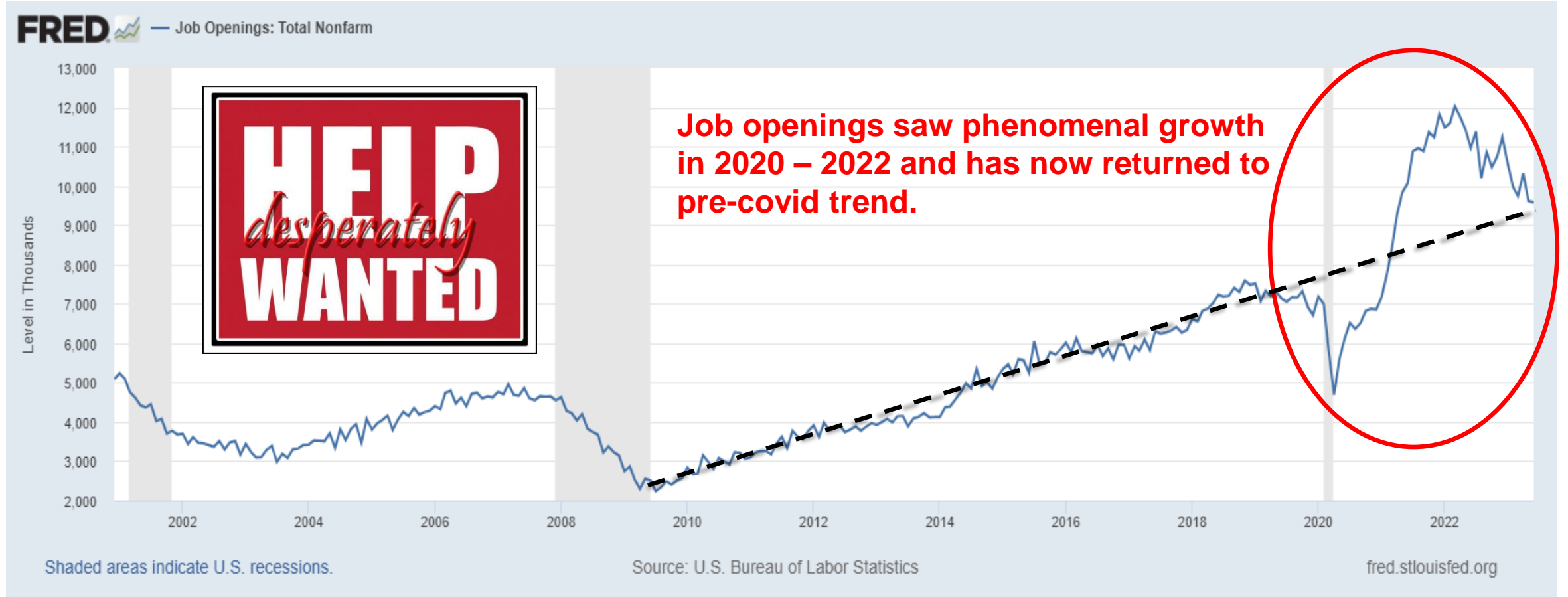
Veterinarians dropping out of the workforce or reducing hours.

3

Productivity

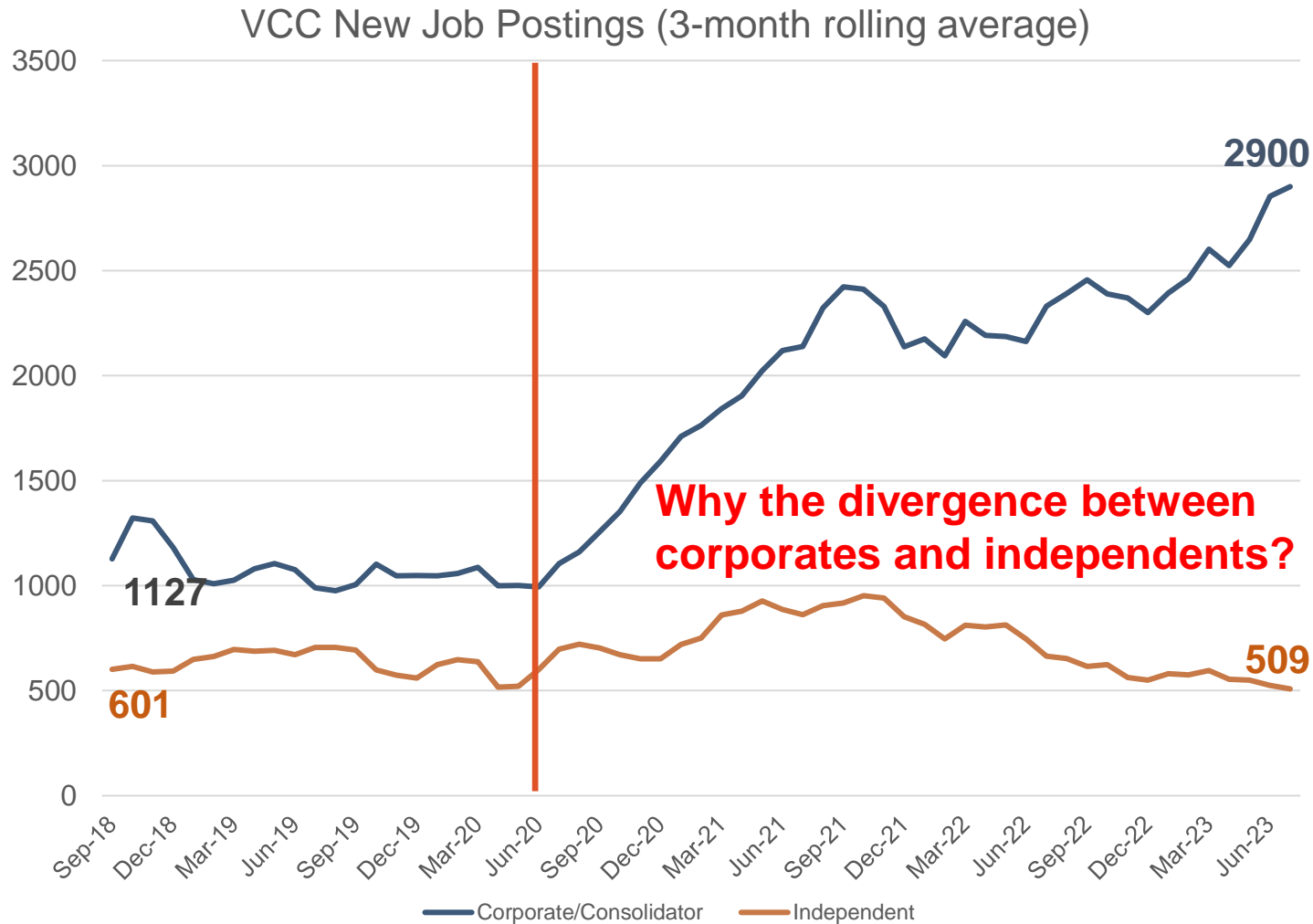
Shifts in workflows have hampered practice efficiency reduced output.

Unprecedented growth in the number of job openings



Source: U.S. Bureau of Labor Statistics

Job openings grew between July 2020 – Oct 2021

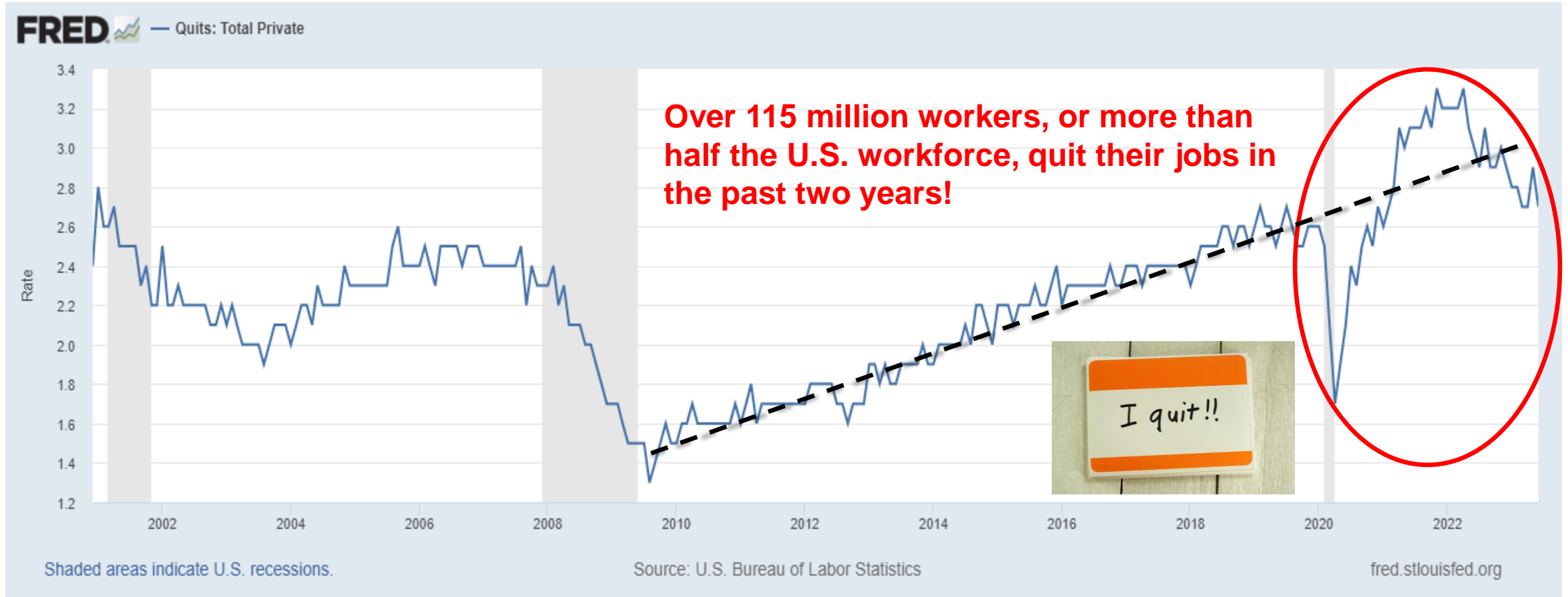


Questions to consider:

- What companies are doing most of the hiring?
- How much quitting took place during this time period?
- Are these new jobs or replacement hires?



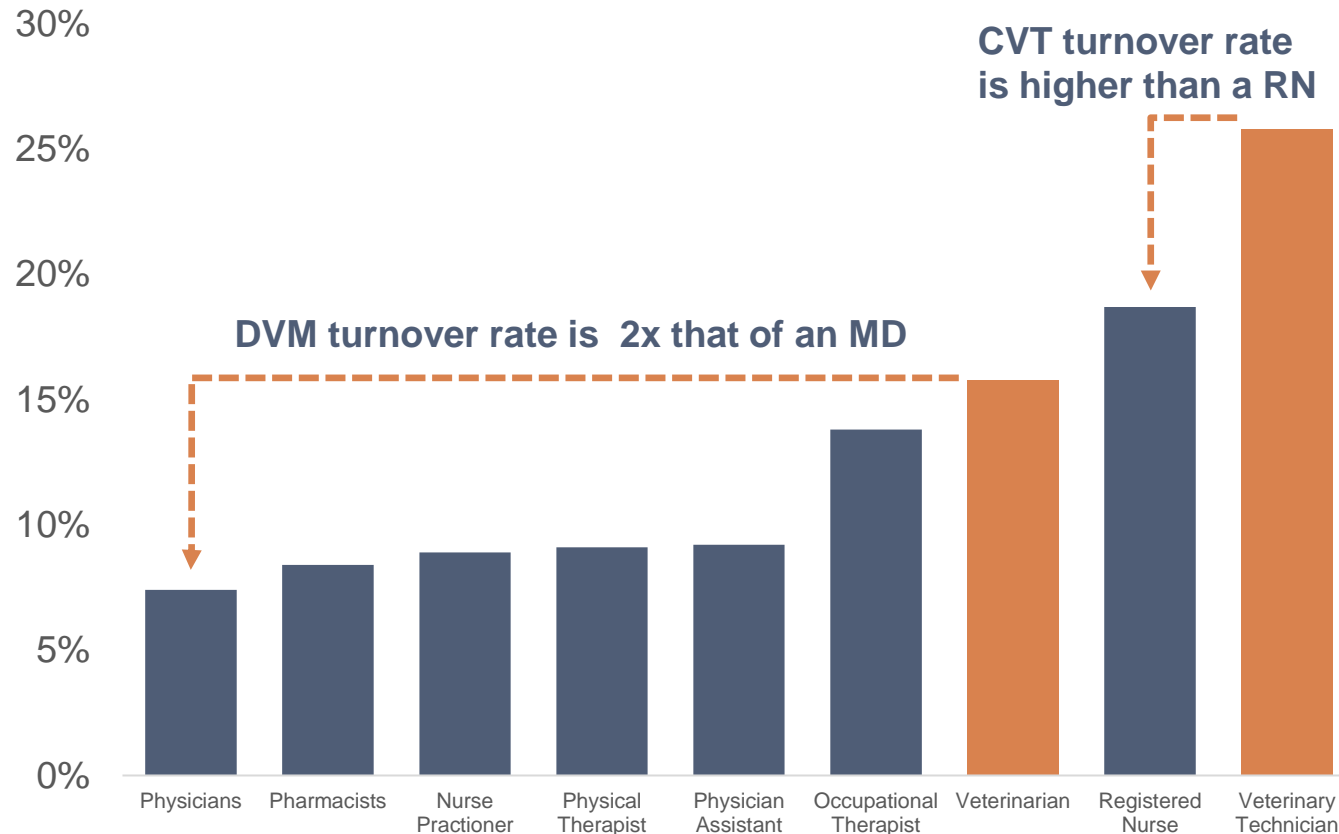
Labor demand increased due to a lot more quitting



Source: U.S. Bureau of Labor Statistics

Do we have a “Recruitment Crisis” or a “Retention Fiasco”?

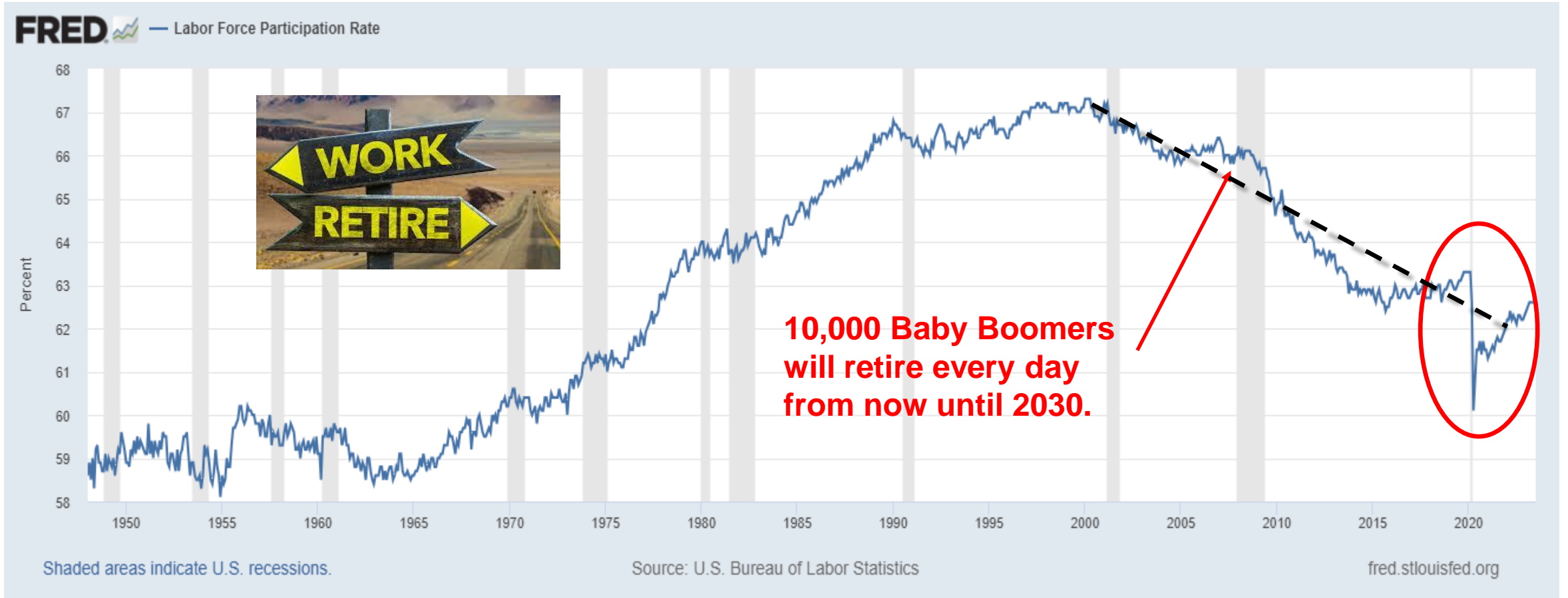
Average Annual Turnover Comparison



Hidden costs of turnover:

- Costly to recruit (time & money)
- Loss of institutional memory
- Training costs (direct & indirect)
- Takes time for new hires to be “good”
- Impacts team morale and engagement
- Damage to the company brand
- Loss of client relationships
- Team productivity nose-dives
- Staff development stalls

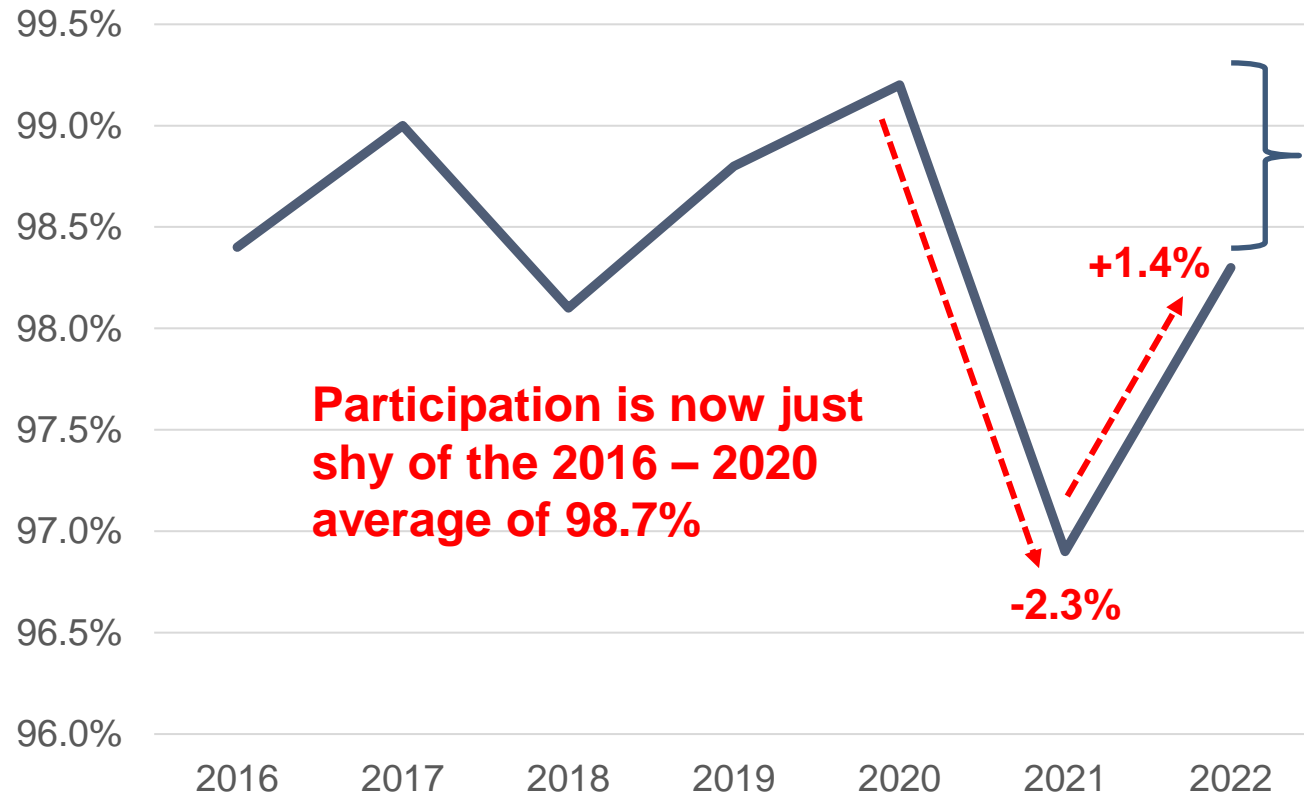
Labor force participation declining; a new normal?



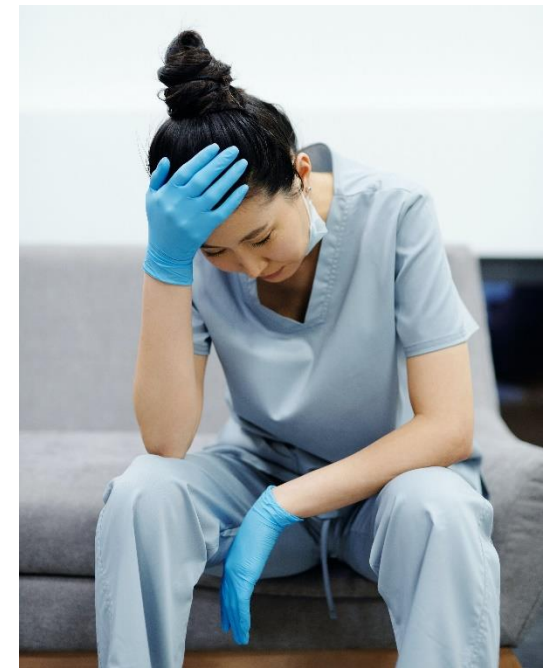
Source: U.S. Bureau of Labor Statistics

Nearly 3,000 DVMs said “NO” to work in 2021; a new normal?

Labor Force Participation Rate, DVMs
(2016 - 2022)



Not yet clear how far the LFP rate among DVMs will rebound.



Source: AVMA Census of Veterinarians (Courtesy of Charlotte Hansen)

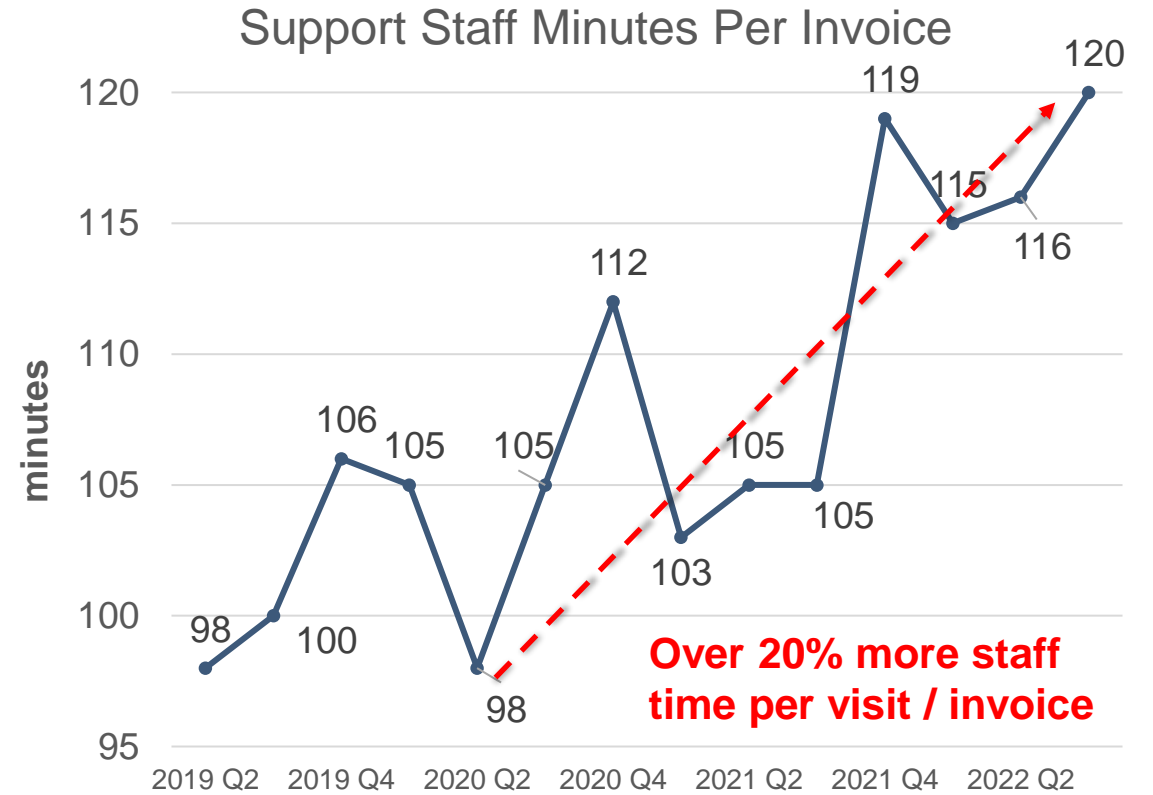
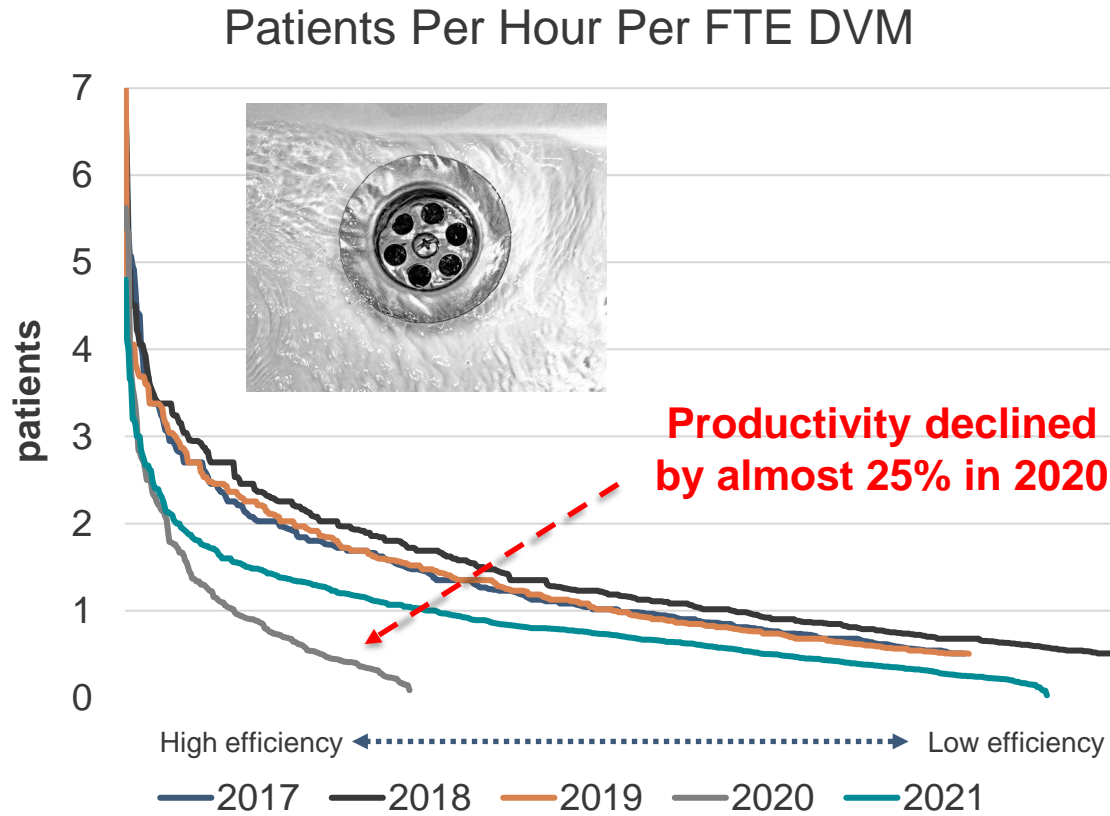
Biggest drop in productivity since 1947! Slowly rebounding.



Source: U.S. Bureau of Labor Statistics

Declining veterinary productivity; everything feels harder!

When labor productivity declines, more workers are needed to keep total output constant!

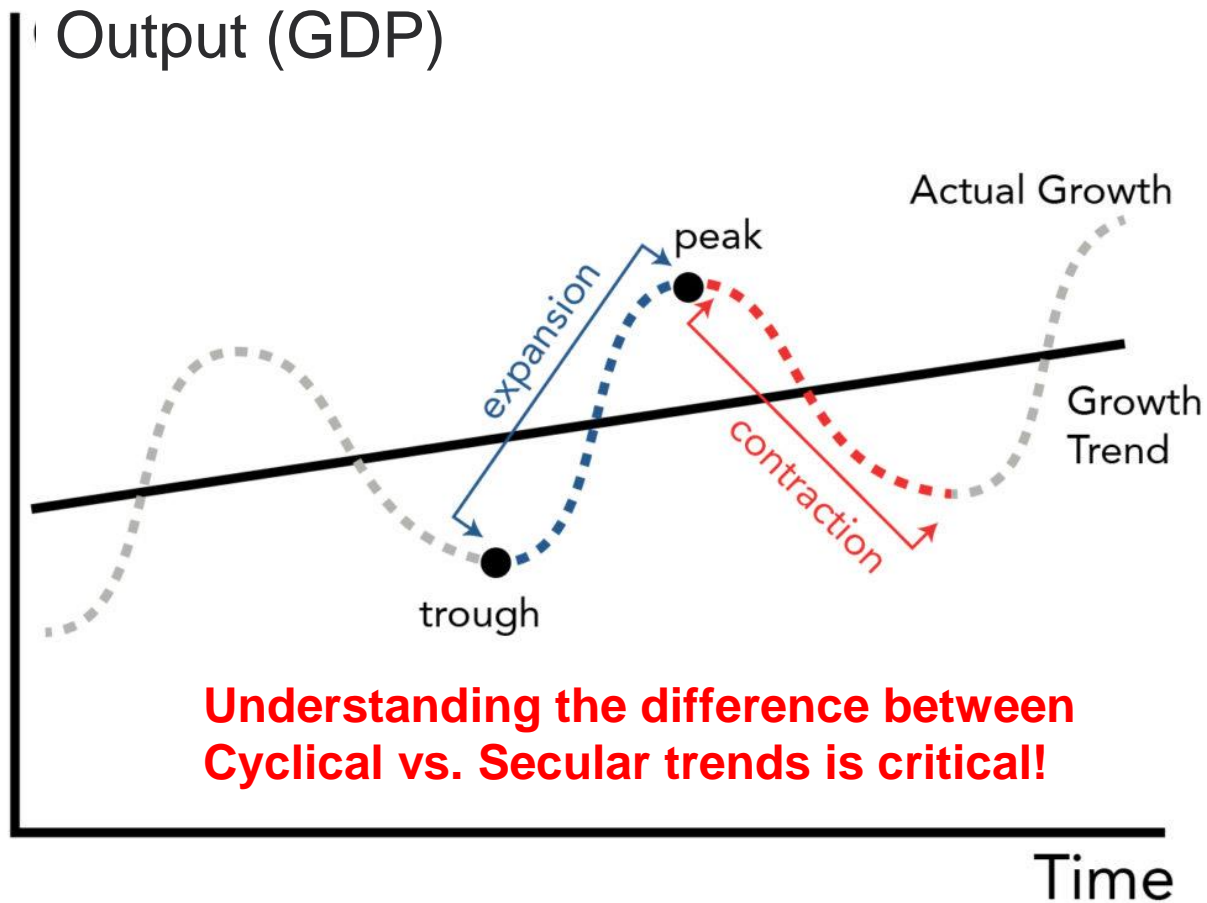


THE FUTURE

1. Veterinary service spending
2. Veterinary service prices
3. Veterinary employment



Business Cycle Analysis 101



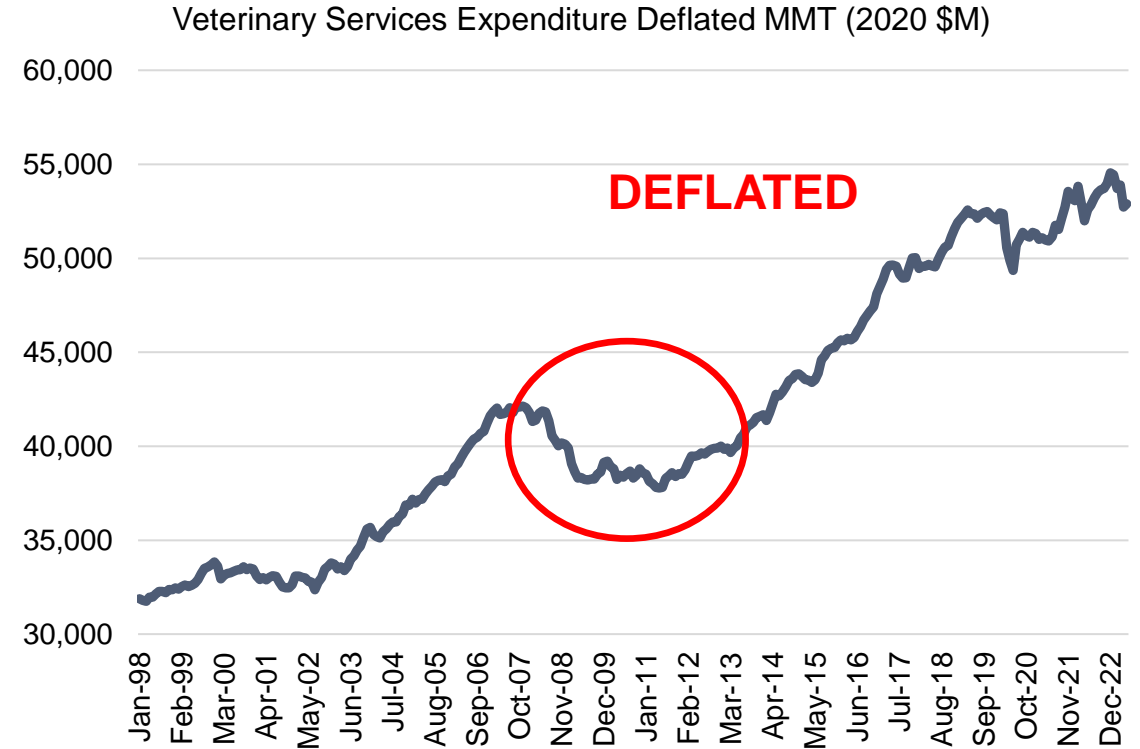
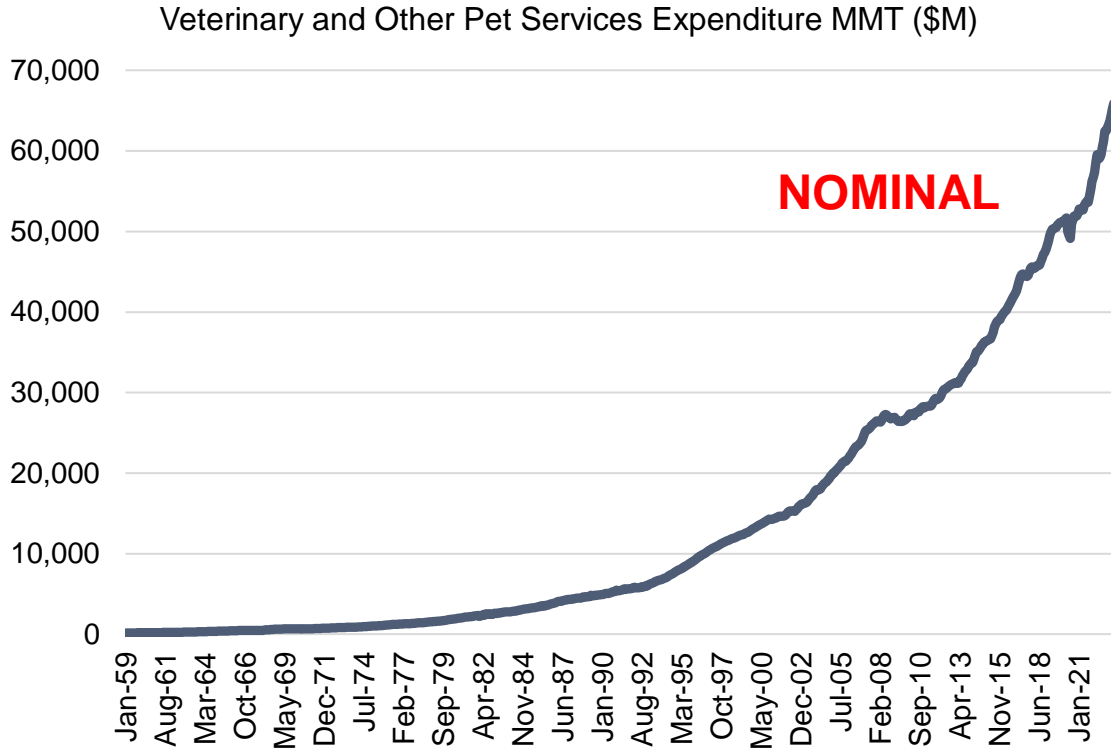
12MMT: A 12-month moving total (12MMT) or average (12MMA) is the total (or average) of the monthly data for the past 12 months.

The 12MMT(A) removes seasonal variation in order to derive the underlying cyclical trend. It is also referred to as the annual total or average.

RATE-OF-CHANGE: A rate-of-change figure is the ratio comparing a data series during a specified time period to the data series during the same time period one year ago.

Consecutive rate-of-change illustrates and measures cyclical change and structural trends.

Veterinary expenditure is slowing down in real terms



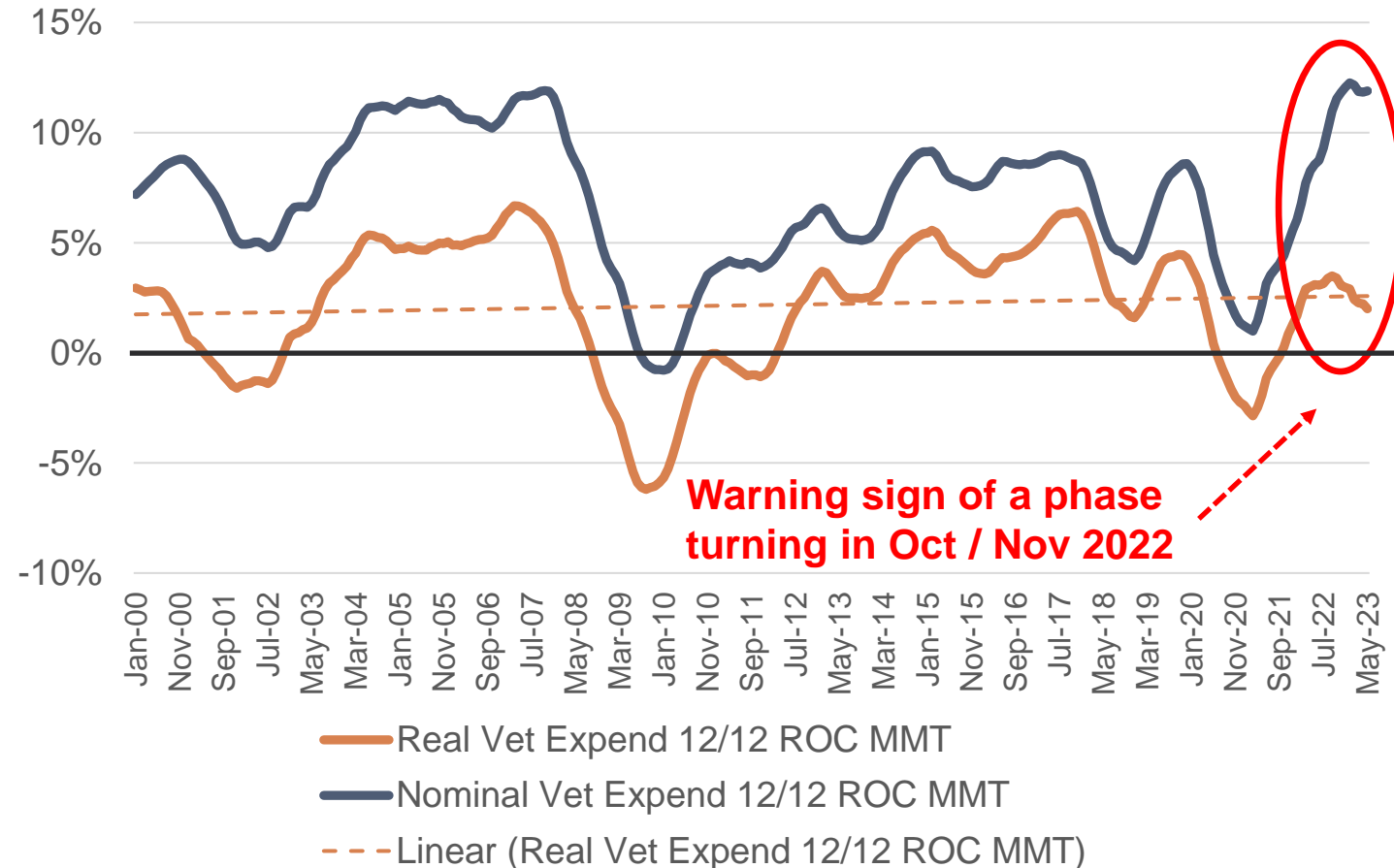
Lesson 1: Inflation adjusted data reveal the “real” direction of spending

Lesson 2: Veterinary spending is NOT recession proof and is impacted

Lesson 3: Real spending on veterinary has been declining since Jan 2023

Real veterinary spending is in a slowing growth phase

Veterinary Services Expenditure Annual Growth Rate
(12/12MMT ROC, Base = 2020 \$)



Slowing Growth (C)

The annual growth rate (12/12) is positive, but the rate of growth is declining. We denote this phase with yellow (for caution).

- Veterinary service spending follows a cyclical trend.
- Negative growth rates during recessions and downturns.
- Structural trend is a steady 1.5% - 2.5% real annual growth.
- Close to recessionary phase D

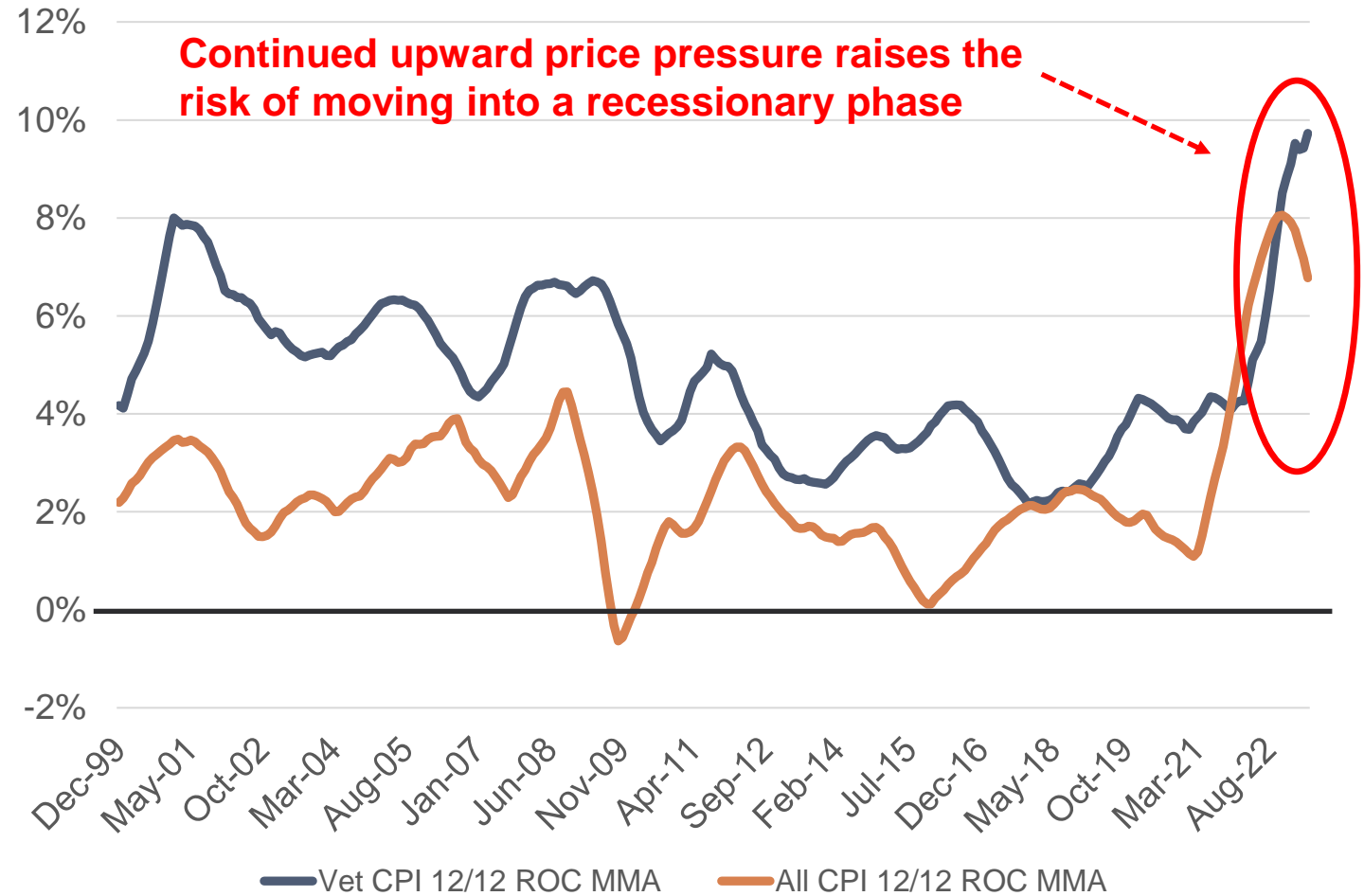
Price growth in veterinary services continues to be strong

INFLATION

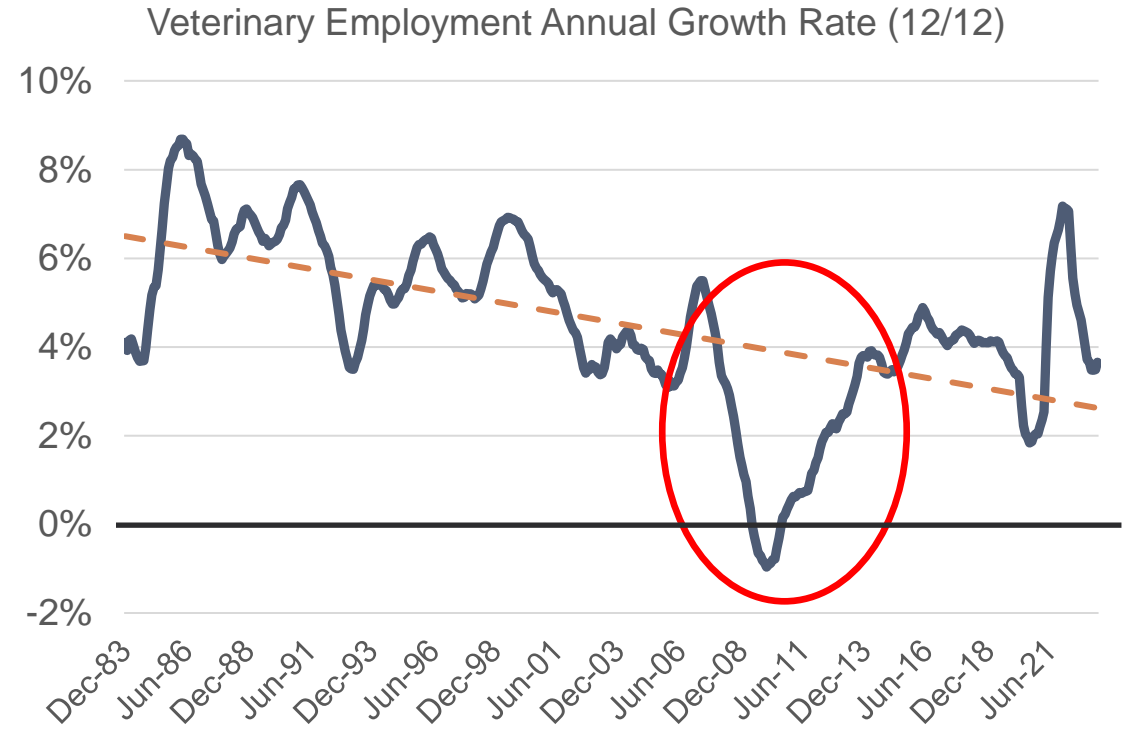
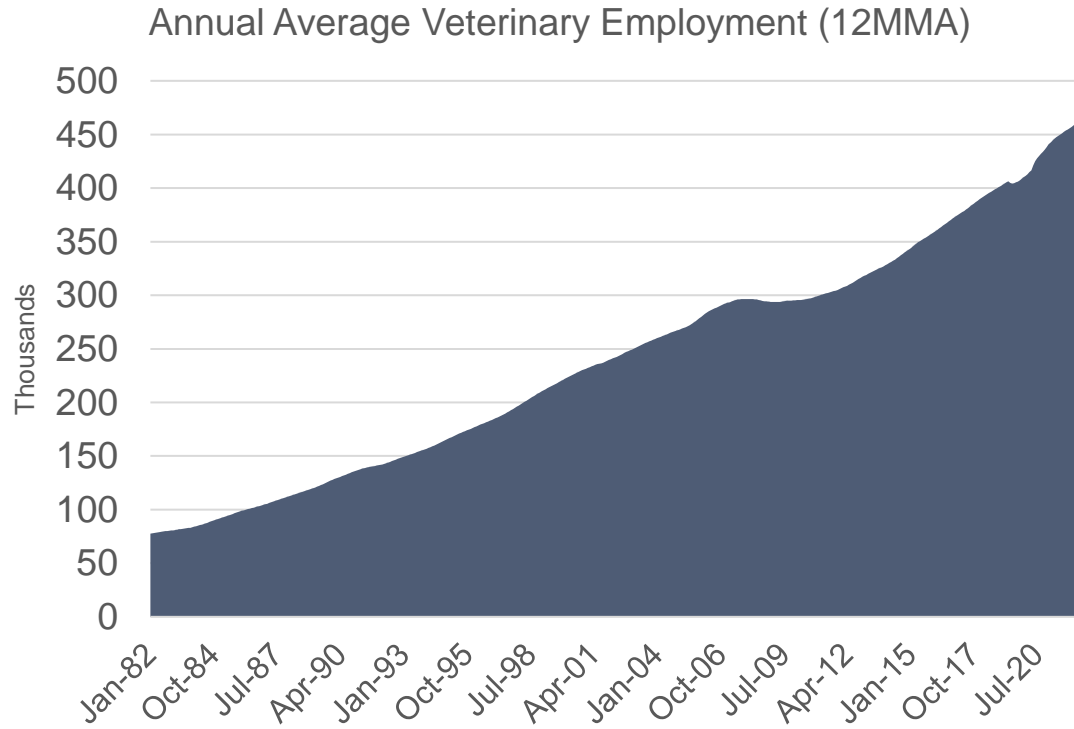


- All CPI growth has been slowing for the 6 months.
- Veterinary service CPI is not showing signs of slowing.
- Prior to 2021, price growth was on a declining secular trend.
- Continued softening is expected on client spending and visits.
- Notice the point when Vet CPI exceeded the All CPI (Dec 2022).

All CPI vs. Veterinary CPI (12/12 MMA ROC Base = 2020)



Veterinary service employment growth is also slowing down



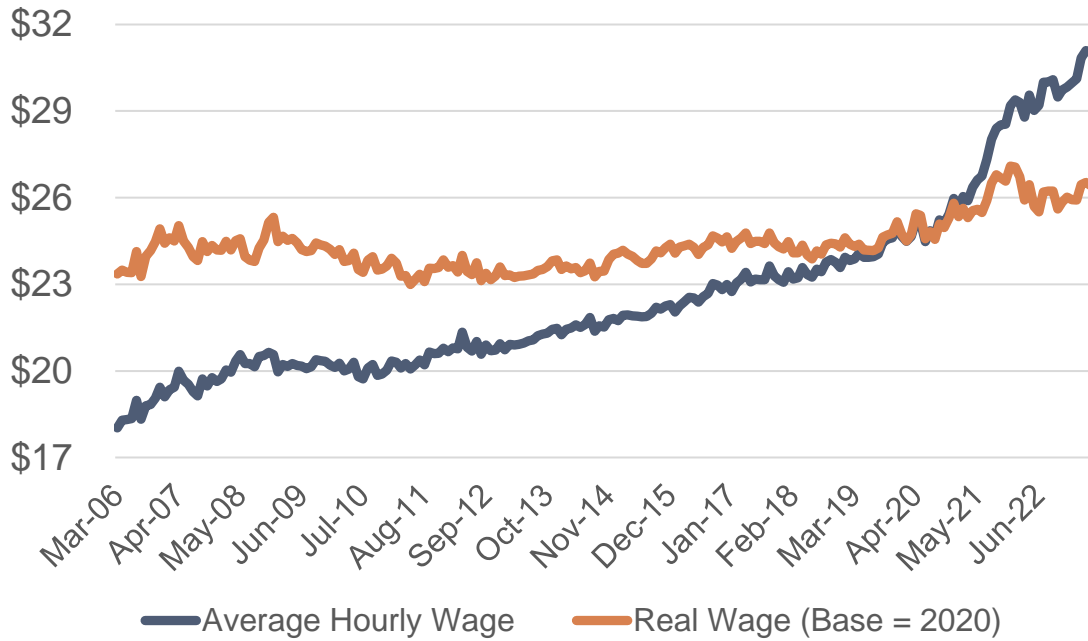
Slowing Growth (C)

The annual growth rate (12/12) is positive, but the rate of growth is declining. We denote this phase with yellow (for caution).

- Veterinary employment is impacted by recessions.
- Total employment is growing, but the secular growth rate has been on a declining trend for decades.
- Inflation and wage growth are key factors.

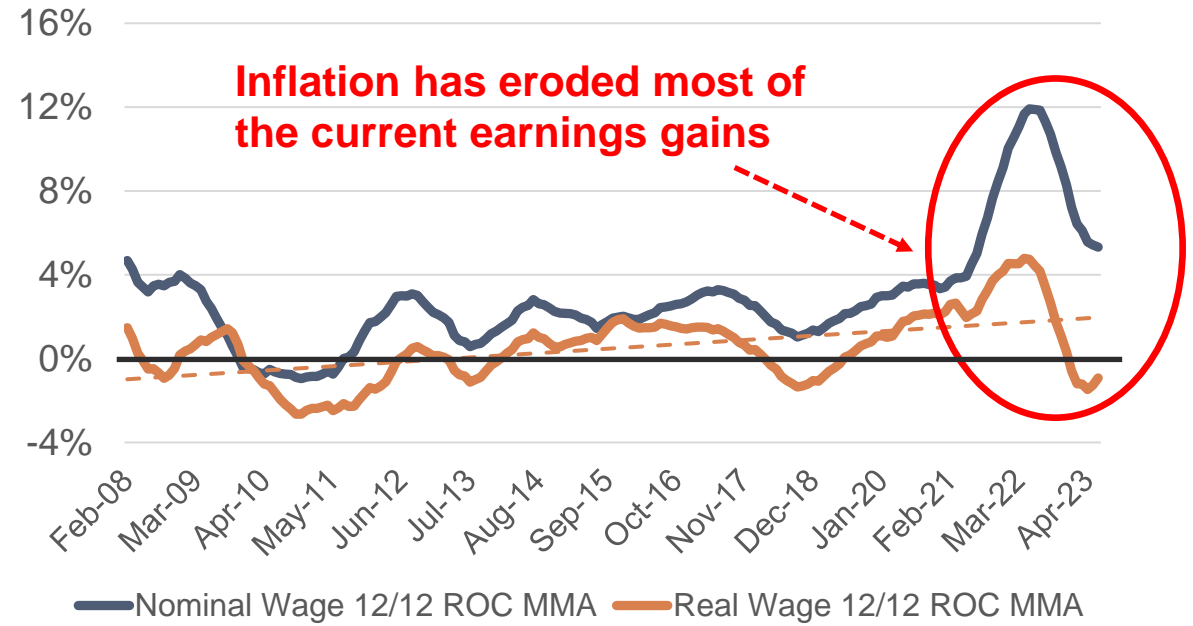
Veterinary wage growth has lost steam since mid-2022

Nominal and Real Average Veterinary Wages



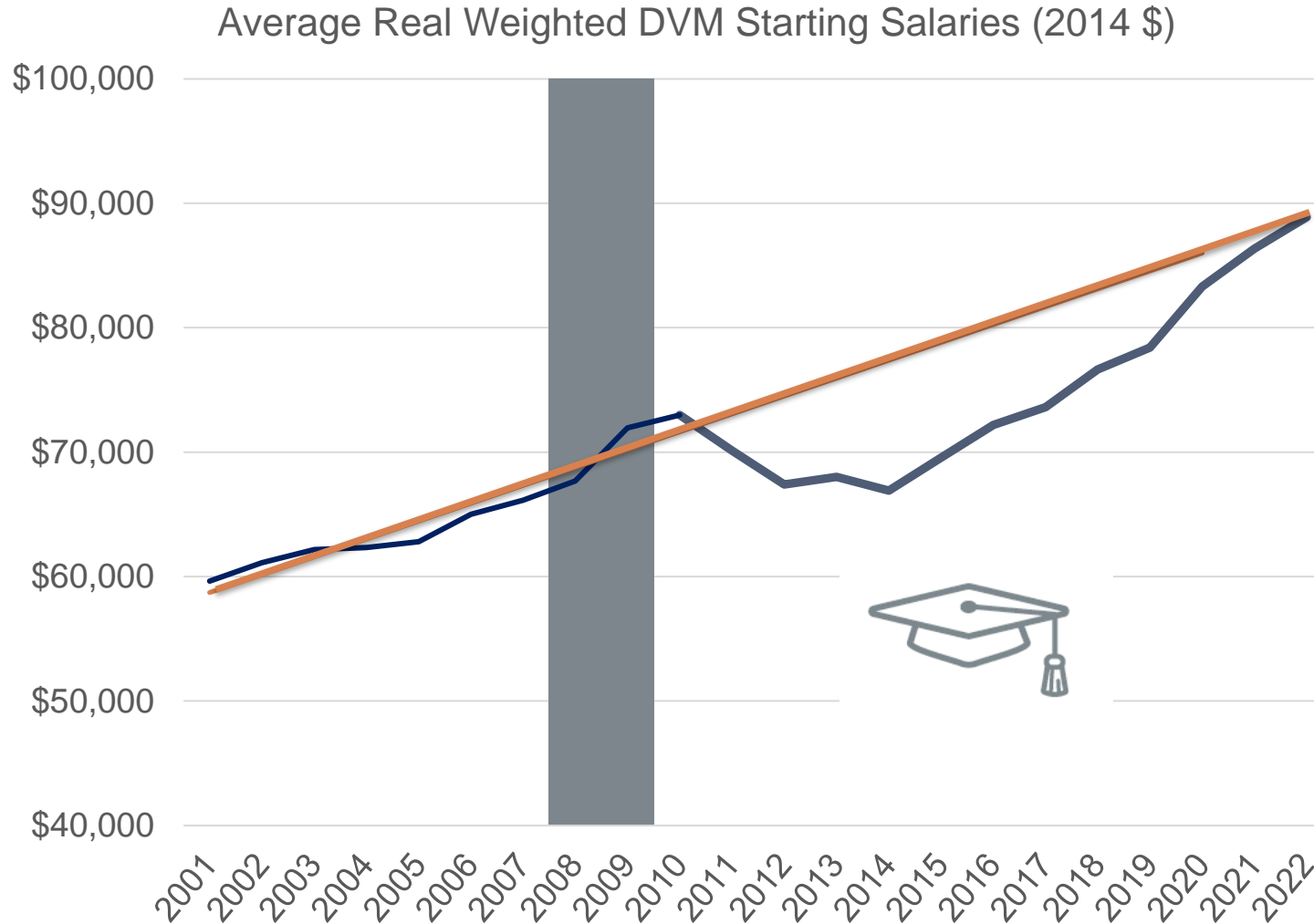
- Although nominal wages continue to rise, inflation adjusted wages have slowed down.
- Primary contributors to inflation include housing costs and the service sector.

Nominal and Real Veterinary Wages Annual Growth Rates (12/12 MMA ROC, Base = 2020)



- Nominal and real wage growth stalled last year. Are they turning a corner?
- Real wage growth dipped into negative territory in January 2023!

The 10+ year recovery journey of DVM starting salaries!



Consider this:

- Post 2008 recession, starting salaries were declining in real terms for a period of 5 years.
- Since 2010, it took 10+ years for starting salaries to return to their pre-2008 recession trend level.
- Recent wage increases have barely kept up with inflation.
- Wages need to rise a lot higher and faster if vetmed is going to be competitive!

The veterinary sector is in phase C but can avoid a phase D

Phase C: Slowing Growth

This phase can be the most treacherous to navigate, as activity is still rising on a year-over-year basis, but the 12/12 rate-of-change is declining.

During Phase C, it is easy to be swept along by the optimism that remains predominant throughout the economy.

However, it is more important than ever to exercise caution and avoid overextending your business as it moves along the back side of the business cycle.

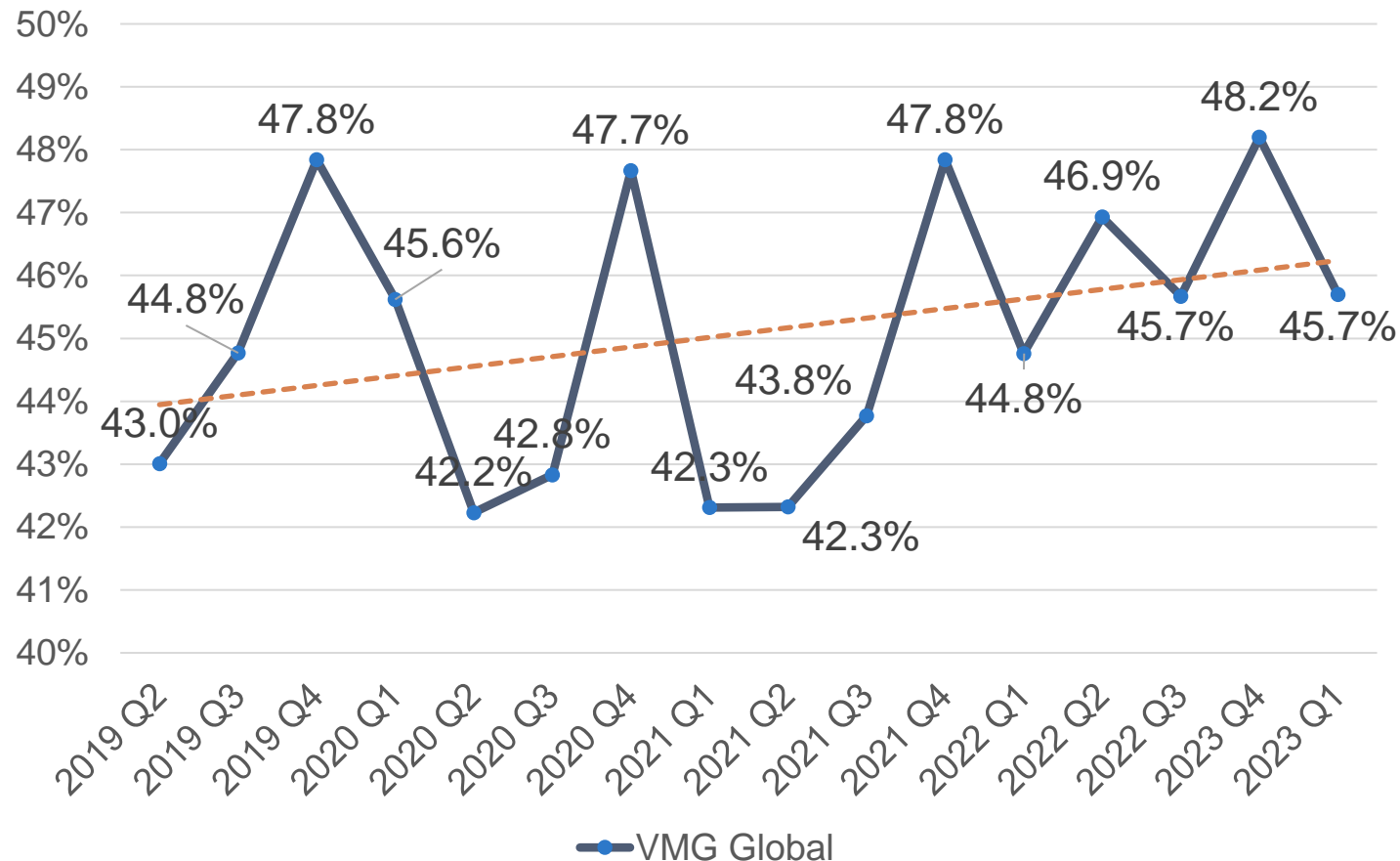
Cash is king during Phase C. Attentive balance sheet management will enable you to avoid the worst of the coming slowdown. **Carefully consider your workforce needs and avoid committing to long-term expenses at the top of the price cycle.**



Efforts to improve productivity and efficiency are central to successfully navigating through a phase C cycle.

Labor is the single largest cost center for every practice

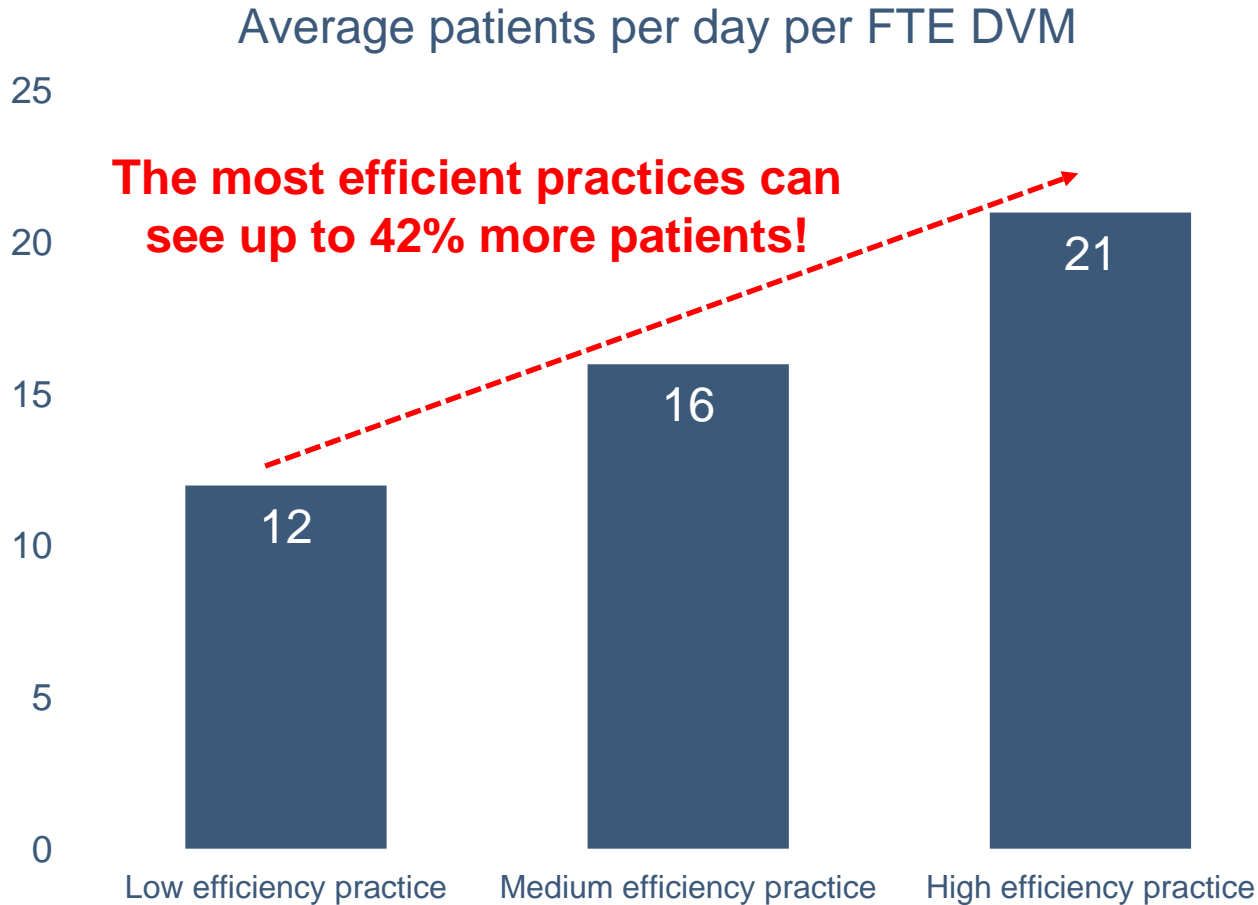
Average VMG Practice Normalized Labor and Benefits (% of Revenue)



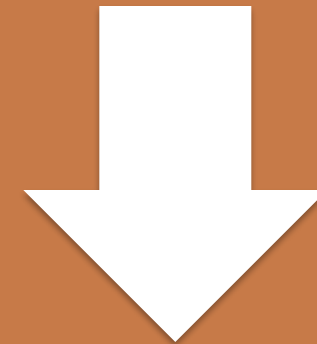
Consider this:

- The average cost of labor has been increasing in recent years.
- DVMs have become very protective of the # of patients they are willing to see per day.
- Hospitals need to continue to work on operational efficiencies
- Introduction of technology solutions to better serve patients.

“Workforce Shortage” or a “Productivity Hole”?



According to an AVMA 2022 analysis, if 10,000 practices in the U.S moved from low to high efficiency, the labor shortage would reduce by:



- 3,633 FTE Veterinarians
- 7,838 FTE CVTs / vet assistants
- 7,133 FTE non-medical staff