Counter Corporate

Rich Morris launched Chicago-based The Veterinary Cooperative in September and now has more than 170 members across the country.

Morris plans to "compete with the Banfields and VCAs by leveraging the collective buying power" of TVC's members.

Morris has a history with cor-

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porations. He was part of an 80-year-old family business worth nearly half a billion dollars that was sold in 1998. Following that buyout, he went into teaching management at Lake Forrest College, and while there he thought a lot about how family and independent businesses can survive in corporatized marketplace.

His answer: cooperatives.

Becoming a member of Morris' cooperative requires one to be an independent veterinarian–meaning you cannot be part of a corporation or on the stock exchange, and you must be at least 51 percent owned by doctors.

"I would say over 90 percent of our practices are owned by a single veterinarian or a group of veterinarians numbering no more than three," he said.

Evidently, there's plenty of interest from the veterinary industry in cooperatives, if TVC's growth is any indication.

"We're still growing," Morris said. "My goal is to get up to 5,000 members."

Equal Playing Field

The advantage of being in a cooperative over being independent, Morris said, is that clinics can be placed on the same playing field as corporations when it comes to pricing. Morris just signed a deal with a major pet food company, which he declined to name, that also sells product to the Phoenix-based PetSmart chain, as well as San Diego-based Petco.

Aside from a pricing advantage, Morris sees cooperatives as a last option for clinics that wish to remain independent.

There are several industries one can point to in which consolidation takes place and independents disappear, Morris said, citing as a "poster child" the hardware industry, which he views as being ruled by corporate giants with household names like Home Depot and Lowes Home Improvement.

"I don't believe big corporations are bad, but I do think they tend to take choice out of the marketplace for the consumer," he said. "The difference between Lowes and Home Depot is really very minimal. There's no personal attention; they come to marketplace in the same way. One looks almost exactly like the other."

To be efficient, large corporations that are buying up independents often set up formularies of what the doctors can and can't do, how they can and can't do it, and what they can and can't buy, he said, adding, "They standardize everything. Then that starts jeopardizing the healthcare of the patients."

Corporate practices also aren't a good deal for veterinarians, Morris contends, because they take away choice and money.

"As soon as you give in to large corporations, you no longer have the ability to make you own choices," he said. "And the harder you work doesn't necessarily mean more money in your own pocket."

But DeFeo believes selling to a corporation actually makes good financial sense for an independent veterinarian.

From a risk perspective, corporations typically have their own financing, and they can put more money down or buy a clinic outright, he noted.

"In our minds, you're getting on balance more security, and you're selling to a corporation that usually has substantially more resources," DeFeo said.

The Real Estate Factor

Secondly, there's often a real estate transaction to consider in any deal for a clinic. DeFeo said VetCor can provide landlords with a steady income stream off a lease—the company typically signs long-term triple net leases, he said—whereas an independent buyer doesn't have such leverage.

For veterinarians who own their property, a better model may be to retain ownership of the real estate and lease it to provide themselves with a steady, long-term income stream, DeFeo said.

It not only helps if the veterinarian retains ownership of the property, but third-party landlords are often quicker to sign off on a lease deal with a well-financed corporation interested in a long-term lease, he added.

Lippincott believes his company's business model has an answer to Morris' assertion that everything becomes standardized at corporate practices.

Veterinary Practice Partners buys only a portion of the practice, keeping veterinarians on as co-owners, which Lippincott said "maintains the identity of each practice." Veterinary Practice Partners merely manages the business functions while leaving clinical decisions to the medical professionals at each hospital.

"We work behind the scenes," he said.

"As we see it," Lippincott added, "just as many DVMs are ill-equipped to create an email marketing campaign, we as business executives are ill-equipped to decide how a sick pet should be treated. Instead, we focus on giving doctors the tools they need to practice good medicine—high-quality facilities, high-quality product and high quality equipment—and leave the rest to them." ●

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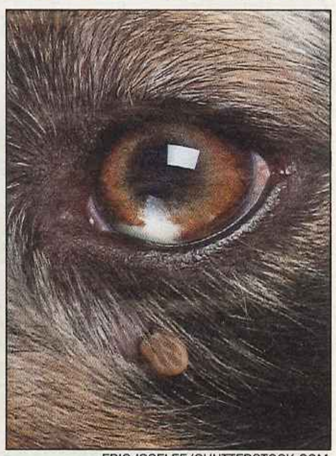

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