

A special advertising section

Co-ops are catching fire, giving independent clinics an edge

By Elisa Jordan
For The Education Center

Independent veterinary clinics are facing more competition from large-scale corporate practices than ever before, for services as well as products.

Because corporates can purchase products in bulk, they can turn around and sell them for less, undercutting independent competition. In addition, big box retailers and practices have the resources to market and publicize their lower prices.

For smaller veterinary clinics with limited funds for products and marketing, that competition can mean significant dents in profits.

Such was the conversation one night at a dinner between Rich Morris and a veterinarian friend. The vet asked about Morris's experience working with cooperatives and why industries needed them. The veterinarian was intrigued.

"I'm sure there is a co-op for veterinarians," Morris remembers telling his friend. "I do consulting for the National Cooperative Business Association. I'll call tomorrow and get you the name. You can join it.

"Well, I called and there weren't any national cooperatives and there weren't any local ones in the Illinois area," where Morris is based.

That is the genesis of The Veterinary Cooperative. It debuted in September 2012 with four veterinarians and Morris heading business operations as CEO.

The organization just hit a milestone, adding its 1000th member.

"Veterinarians went to school for eight years to become DVMs, not eight years to business school," Morris notes. "The board wanted a business person to run the day-to-day operations, but the cooperative is truly run by the member-owned board of veterinarians in terms of its direction."

"TVC is a true cooperation between people who know the business of running an animal hospital. We rely on veterinarians for their medical knowledge and they rely on us for the business knowledge."

Others in veterinary medicine have seen the potential of cooperatives as well. In recent years, the Veterinary Cooperative Oncology Group, Virginia Cooperative Extension and Cornell Cooperative Extension, among others, have also been established.

The idea is catching fire. It has already been tested successfully in other industries, such as hardware and automotive. Principles that worked elsewhere can now be applied to the veterinary world.

A cooperative gives independent veterinarians purchasing advantages that their larger competitors already enjoy.

Chain stores can purchase products in large quantities, enabling them to get a better price. That puts Hometown Veterinary Clinic at a disadvantage; it purchases less product at more money per unit. In a cooperative, however, clinics banding together qualify for a quantity rate while each buys the way it always has.

"I don't go and buy 1,000 vaccines," says Morris, using an example. "I go in and say I represent 1,000 clinics and I can't guarantee you they're going to buy, but if you give me the pricing we're going to move sales toward you. So they give TVC the same pricing as VCA, Banfield, etc., because we are the same size or bigger."

Some clinics might fear that working with a cooperative means they can no longer make their own decisions or have choices.

"Cooperatives are democratically controlled, providing members with authority over how the organization is run, what products and services are most needed, and how patronage dividends are received," says Pat Sterner, chief operating officer of the National Cooperative Business Association, a trade group based in Washington D.C.

Clinics may also use their own vendors, though cooperatives try to work with as many vendors as possible to benefit the most businesses. The likelihood is pretty good that a clinic's favorite vendors—and salespeople—are already part of the program.

"We want to work with vendors who are on a mission to find the best animal care and

Currently, about 48% of small animal clinics belong to a corporate hospital group, buying group, or purchasing cooperative (like TVC).

support the independent clinics," Morris adds.

Co-ops can address other misgivings veterinarians might have.

"For small businesses like veterinary clinics, there is sometimes a concern about competition," says Sterner. "For instance, 'If I join, will I be competing with another local clinic and thus lose market share?'"

"What we see is that collaborating on cost of goods and sharing of best practices actually strengthen each of the businesses belonging to a cooperative," she says. "Participation also highlights the importance of small businesses in keeping local dollars local, and can build stronger competition against the big box stores."

Buying local, Sterner says, is an important economic trend. Consumers like keeping their money in their own communities when possible.

"A recent survey conducted jointly by NCBA and the Consumer Federation of America demonstrated the power of local, with more than 57 percent of survey respondents indicating they make their purchasing decisions based on buying from local businesses," Sterner says. "And 67 percent of the same respondents say they make purchasing decisions based on knowing whether or not the business is part of a buying cooperative."

Participating in a co-op also builds trust, Morris says.

If customers can buy products at XYZ Pet Store for significantly less money than at their local veterinary clinics, then they may second-guess their veterinarian. Does Fido really need that surgery? Does Fluffy need this special food? Do you just want to charge me more?

More competitive prices, Morris says, can alleviate those customer concerns.

Some veterinarians worry about lowering margins

to match competition, which means less revenue, but Morris says TVC has programs that show a clinic it will make more money because it will increase the amount of product sold.

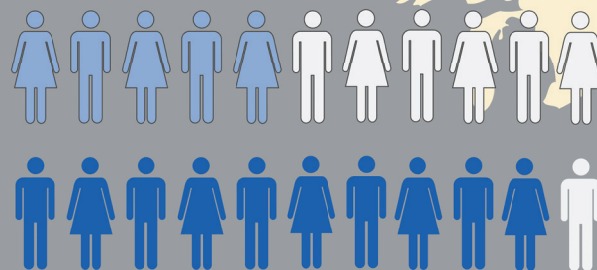
It seems counterintuitive, he says, but it works.

"The guy down the street isn't your competitor," Morris notes. "PetSmart, Banfield, VCA, Walmart, 1-800-PET-MEDS are, and they're using modern business techniques. They're actually reducing margins. Yet because they reduced margins, they increase customers and they increase profits. TVC provides Business Sen\$e education to bring these same techniques to the independent clinic."

Co-ops provide other benefits as well, Morris says, such as the opportunity to learn from peers. Networks of doctors can exchange information, which leads to better service and medicine.

"We believe you can provide the best care and make the best profit at the same time," Morris says.

Buying Power in Numbers



At current rate of growth, over 90% of all small animal clinics will be part of a corporation or group within 5 years

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Some cooperatives conduct research and offer marketing strategies that most veterinarians don't have the resources to produce themselves. Access to such materials can help grow business.

"The veterinary industry as a whole is growing at about 2 percent to 3 percent annually, yet corporate-owned clinics must grow 10 percent a year to meet stock market expectations," Morris says.

"If your independent business is not focused toward substantial growth in revenue and profits, then you are likely losing market share as the corporates effectively make a grab for your clients," Morris says.

"Thirty years ago, the market was growing faster than there were veterinarians to support it. Today, that's no longer the case. It's all about market-share grab. Only the well-managed clinics will survive."

Morris estimates that corporate practices are growing about 20 percent per year. The good news is that co-ops and group purchasing organizations (GPO) are also growing at about 20 percent a year. He estimates that in five years about 91 percent of all independent veterinary clinics will have gone corporate or joined a co-op/GPO to stay competitive.

"Change is happening at a rapid pace, and often by the time people realize this change is coming, it will be too late," he says. "The people inside these groups and the corporations will have the advantage." ●

This Education Center story was underwritten by
The Veterinary Cooperative of Evanston, Ill.