

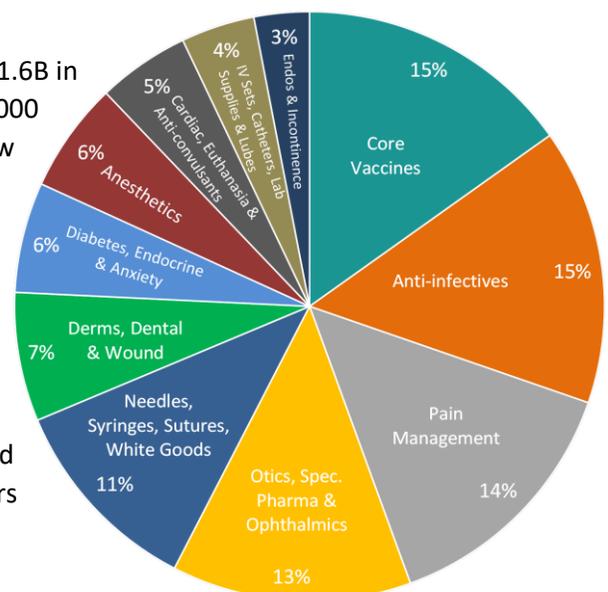
The Animalytix Veterinary Consumption Index

In companion animal medicine, there are products that are ubiquitous to every practice. Products used in specific areas of the practice, used for specific patient types or specific purposes can be utilized as a sentinel for clinical volume within a specific geography or as a comparative metric between a population of like entities. To be an effective sentinel, products must satisfy certain utilization thresholds:

- Ubiquitous and inelastic demand; these products are utilized every day in clinical practice.
- Purchased “as needed” with minimal impact on purchasing behaviors due to seasonal or promotional incentives.
- Product turnover driven by patient / appointments / procedures volume at an individual location (scalable).
- Minimal influence from seasonality or geographic location.
- Products are sold as unique quantities.
- Good examples of sentinel products include the following:
 - Core vaccination series (DAP / HCP)
 - Needles & Syringes
 - Sutures
 - White Goods
 - Fluids
 - Human Labeled Pharmaceuticals (Generics)
 - Euthanasia Products

Because of the unique nature of these products and their usage, consumption may be used as a proxy for “client churn” or patient volume – in other words, an indicator of how busy the practice is. The aggregation of multiple sentinels into a “market basket” allows the analyst to derive an index value for their utilization over time and serve as an apple to apples comparative across a population.

The Veterinary Consumption Index (VCI) represents more than \$1.6B in annual sales of sentinel products consumed by more than 27,000 veterinary hospital operations in primary care, specialty and low cost segments of the market. The data is geo-located according to regional, state and major metropolitan areas and can provide a practice owner with a more detailed look at the local market dynamics within their relative market area. Instead of interpreting the relevance of nationalized averages, a practice owner is able to gain a deeper understanding of market dynamics relative to their peers. Consumption data also allows us to understand where the drivers are in our own practices and help us make smarter strategic decisions as small business owners



VCI – Recent Findings

In reviewing changes in the VCI data set from Q4 2013 through Q3 2016, several important insights can be taken from the data..

For this analysis, location types were aggregated into several groups including: 1) those serving small animal primary care patients; 2) emergency/specialty care providers; and 3) low cost providers (shelters, humane societies, SPCA organizations, and spay/neuter facilities). While the presence and relative market shares for the specialty and low cost provider segments have grown over the past three years, the overwhelming majority of VCI spending (and hence patient churn) is still driven through the small animal primary care provider. In a population of more than 27,000 operations, small animal primary care providers represented 85% of consuming locations while Emergency/Specialty and Low Cost Providers each make up about 4%. Locations active in the care of both small and large animal clientele make up about 7% of all locations.

The VCI is a valuable tool in determining the relative growth and/or decline of the market as well. In measuring the 12-month period of 4Q 2015 – 3Q 2016 against the same period 24 months prior, the VCI grew at a rate of 15.4%, or an inferred compounded annual growth rate of 7.24%. Growth of the market was driven by the influence of the small animal primary care segment at 15.3% while the emergency/specialty outpaced the market growing 17.5% and low cost providers lagged slightly behind at 14%. When reviewing the rate of change on a quarterly frequency, the data suggests some slowing of the emergency specialty segment in the last 12 months, down from a peak of greater than 3% quarterly increase in early 2015 to less than 1.5% in recent quarters. It will be interesting to track this trend in more detail in the coming months to see if it is a sustained effect or an aberration.

Despite healthy growth of the aggregate VCI through the study period, growth is not equal across all geographies. In reviewing VCI change segmented by major metropolitan areas, variation across the country is evident. Even within individual states, significant changes between major markets exist such as was identified in both California and New York.

The Veterinary Consumption Index as a leading indicator of clinical consumption volume is a useful tool in understanding the macro changes impacting the companion animal market. It provides both timely and a geographically relevant perspective for the veterinary practice small business owner in assessing performance for an individual market on a month-to-month basis. Veterinarians will benefit from utilizing the VCI index in assessing the performance of their own practice as well as the overall health of veterinary market in aggregate for their respective market area.

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