

THE SUPPLY OF VETERINARY SERVICES FOR HOUSEHOLD PETS
CMA CONSULTATION ON PROPOSED MARKET INVESTIGATION REFERENCE

RESPONSE

11 APRIL 2024

- 1 On 12 March 2024, the Competition and Markets Authority (**CMA**) published its [Market Investigation Reference \(MIR\) consultation \(Consultation\)](#) setting out the concerns identified by the CMA based on the evidence considered by the CMA during its [market review launched in September 2023](#), the proposed scope of a MIR and the CMA's provisional views on whether the legal test for a MIR is satisfied and whether a MIR would be appropriate.
- 2 The CMA has invited representations from interested parties on its Consultation.
- 3 Pets at Home Group Plc (**PAH**) is the UK's leading pet care business, providing pets and their owners with advice, products and care and whose purpose is to create a better world for pets and the people who love them.
- 4 A key part of PAH's pet care business is its leading small animal veterinary business (**Vet Group**), consisting of 448¹ veterinary general practices located both inside PAH stores and in standalone locations, most of which are operated on a joint venture (**JV**) model basis as 50/50 JVs with individual practice owners who are either vets, nurses and/or practice managers².
- 5 PAH has actively and constructively engaged with the CMA since the launch of the market review, including fully answering the CMA's many questions and meeting with the CMA case team, in person and remotely, on several occasions. PAH will continue to engage with the CMA in this manner, whether or not the CMA does ultimately decide to make a MIR, and, in that vein, PAH is pleased to provide below its representations on the Consultation.

Background

An industry under pressure due to several external factors

- 6 It is important to acknowledge that the veterinary services sector has, over the past few years, been put under increasing pressure by several external factors, including:
 - (a) dramatically increased pet ownership levels, particularly since the COVID-19 pandemic, leading to increased demand for veterinary services and for vets and vet nurses (Consultation, paragraphs 1.6(b) and 1.8);
 - (b) significant staff shortages (Consultation, paragraph 1.7), due in part to high levels of vets and vet nurses leaving the profession on account of stress/mental health issues and to Brexit having led to fewer vets and vet nurses from the EU working in the UK (Consultation, paragraph 1.8);

¹ As of December 2023.

² PAH provides various services to the practices in return for management fees.

- (c) more generally higher costs (Consultation, paragraph 2.20), in particular since early 2022 (coinciding with the cost-of-living crisis). In addition to labour costs, increased costs are also attributable to factors such as:
 - (i) the costs of post-graduate qualifications and certifications for vet professionals;
 - (ii) increases in equipment, utilities, rent and pharmaceutical costs. In 2023 PAH's energy costs increased almost 200% and pharmaceuticals costs have increased by around 20 – 30% since the start of 2021;
 - (iii) higher veterinary costs of treating the increasing proportion of older pets; and
 - (iv) costs arising from advancements in treatment options driven by consumer demand as a result of the increased “humanisation” of pets leading to expectations for pets’ clinical outcomes to converge with those of humans; and
- (d) a lack of understanding (in part attributable to familiarity with the NHS as regards human patient care, which is free at the point of delivery) of the true cost of veterinary care on the part of many pet owners (Consultation, paragraph 1.6(a)(e)).

Indeed, the profession has seen a 13% reduction in UK-based vets since 2018 (with 50% of vets leaving the profession quoting chronic stress as a reason), combined with a 9% increase in the UK pet population just in the last two years.

PAH's business model represents a pro-competitive market-based offering which addresses many of the CMA's concerns

- 7 PAH, for its part, has grown its veterinary services business in a distinctly pro-competitive way, through:
- (a) its unique JV practice structure, which guarantees that clinical and pricing decisions are made locally by independent practice owners who have clinical, pricing and operational autonomy;
 - (b) being transparent with customers as regards treatment pricing and options. While each of the practices ultimately decides on a range of their own practices and processes, PAH provides support and guidance, including ensuring that price lists for routine procedures are displayed in practice waiting areas and the options and costs as regards further treatment/non-routine procedures are discussed with customers in advance and cost estimates are generally provided where possible;
 - (c) the absence of any exposure to verticals, as PAH sold its specialist referral division in 2021³;

³ The Consultation states (see paragraphs 2.22, 2.27 and 2.31) that: “*The large corporate groups, to differing extents, have also acquired related business in the value chain...*” (underlining added); “*...some large vet groups*”

- (d) its growth strategy of adding new capacity to local areas by opening new practices and extending existing practices (rather than acquiring competitors' practices⁴) which requires it to have a compelling customer proposition to attract demand and thereby to create value/grow profits⁵; and
- (e) the fact that all PAH's practices are clearly branded under our national brands ("Vets4Pets", "Vets for Pets" and "Companion Care").

As such, we would argue that the success of PAH in recent years can be seen as due to PAH offering a market-based solution to many of the concerns identified by the CMA in its Consultation (i.e. the market is rewarding a pro-competitive player who puts the interests of pets and pet owners first).

Any MIR should be limited in scope to what is strictly necessary to avoid further burdening a sector already under strain from these external factors

- 8 As such, it is vital that the CMA recognises that a MIR will itself likely impose considerable cost on the sector as a whole and will give rise to considerable uncertainty over an extended period which could adversely impact on incentives to invest in the sector at a time where additional capacity is needed to address the increased demand for these services. Given that circa 50% of veterinary practices are small independent businesses⁶, the burden of the cost and complexity of a MIR may be felt disproportionately by these (predominantly first opinion) practices and may limit their ability to invest, compete and provide care effectively in an industry that is already under considerable strain.
- 9 Further, a MIR could itself potentially contribute to an increase in stress/anxiety for individuals working in the sector, in particular if the CMA is not extremely sensitive as regards the language it uses when publicising any findings/emerging thinking.⁷
- 10 Given the burden that a MIR would impose on the UK veterinary industry, it is submitted that the CMA should only make a MIR where its concerns cannot be addressed satisfactorily by less burdensome measures. In this case, it is submitted that the proposed MIR scope is disproportionately broad and, indeed, most, if not all, of the CMA's concerns can be addressed by less burdensome measures, as explained further below.

may be focused on selling the most comprehensive, risk-averse, or sophisticated treatment and testing options...We consider that they may have the incentive (due to their business model) and the ability...to do this" (underlining added); and "...the large vet groups which employ them could (to differing extents) have the incentive to encourage their vets to promote the most expensive treatments..."(underlining added). It is submitted that PAH's business model and structure differ (compared to other large corporate groups) to such an extent that such concerns are misplaced with respect to PAH.

⁴ Since PAH's acquisition of the Vets4Pets business in 2013, PAH has acquired a small number of specialist practices (the most recent in 2016), all of which PAH subsequently sold in 2020. As such, since 2013, PAH's strategy for the growth of its veterinary services business has been through opening new practices (PAH aims to open [REDACTED] new practices a year over the medium term bringing new vet capacity to local areas) and expansion of its practices (further expecting to complete more than [REDACTED] extensions of existing practices in 2024 alone).

⁵ Over the past six fiscal years (FY2019 to FY2024), there have been a total of [REDACTED] new pet registrations at the Vet Group's practices.

⁶ Including PAH – given that most of PAH's practices are JVs where the practice owner has autonomy as regards clinical, pricing and a number of operational decisions.

⁷ See [RCVS statement](#) as regards a reported worrying spike in abusive behaviour and harassment by some animal owners towards vets, vet nurses and practice colleagues on the day of CMA's MIR announcement.

Concerns which can be remedied by transparency/information remedies

- 11 A number of the concerns identified by the CMA relate to the pet owner's ability to make properly informed decision with timely knowledge of his/her options. This is the case as regards:
- (a) Concern 1 (that consumers may not be given enough information to enable them to choose the best veterinary practice or the right treatment for their needs);
 - (b) Concern 3 (that large integrated groups may have the incentive and ability to act in ways which may reduce choice and weaken competition), in particular as the CMA's concern relates to the possibility that "*consumers are not presented with a range of treatment options*" (Consultation, paragraph 2.28) and that large and truly integrated groups⁸ might have "*weak incentives to inform consumers about lower cost options*"; and
 - (c) Concern 4 (that consumers may be over-paying for veterinary medicines), to the extent that the issue is raising awareness levels among pet owners that they can buy animal medicines from pharmacies instead of from their vet.
- 12 The Consultation notes (Consultation, paragraph 3.39) that, while the CMA has not received any undertakings in lieu of a reference (**UILs**) proposal, some of the large corporate groups accounting for around 50% of vet practices in the UK jointly approached the CMA to engage in preliminary discussions about remedies to address the CMA's concerns.
- 13 Based solely on the CMA's description of those proposals (Consultation, paragraph 3.40), they do appear to provide a basis for an industry-wide code of conduct that would address these concerns (note: PAH reserves its position on the detail as it has not seen these proposals beyond the description of them in the Consultation – although we would add that many of the aspects of these proposals are already common practice in most of PAH's clinics (see paragraph 7(b) above).
- 14 Given the very considerable expense and, more importantly, market uncertainty over an extended period of time that a MIR will entail and given that section 154 provides a mechanism for the CMA to accept UILs, in our view the CMA should seriously consider this as a preferable route to a MIR.
- 15 Further, it is submitted that these concerns do not require the CMA's use of its formal evidence gathering powers to identify how customers can be provided with the right information, in the most helpful way, to enable them to make fully informed decisions. PAH would be very pleased to constructively provide input to the CMA on these proposals and imagines that the same will be true of all the other stakeholders concerned.
- 16 While it is true (as the CMA notes at paragraph 3.4.1 of the Consultation) that these proposals do not relate to all the CMA's concerns, it is submitted that to the (considerable) extent that they do (see paragraph 11 above), industry-wide UILs would be preferable to a MIR. Further, if the CMA does take the view that a MIR is required, for instance to address Concern 3 as regards the vertically integrated structures of the

⁸ Which, it is submitted, does not include PAH, see paragraph 7 and footnote 3 above.

large integrated corporate groups⁹, the MIR should be limited to that, which will avoid subjecting the approx. 50%¹⁰ of first option veterinary practices which are not vertically integrated (at all or to any significant extent) to the burden of a MIR.

Other concerns

Concern 2

- 17 Concern 2 relates to whether concentrated local markets may be leading to weak competition in some areas.
- 18 We would observe that, while the CMA did not include its merger control powers among the “*alternative powers available to the CMA*” considered as paragraphs 3.45 – 3.48 Consultation, the CMA does have merger control powers which can be (and have been¹¹) used by the CMA to address increases in local market concentration through consolidation (including historical consolidation that was not sufficiently publicised at the time).
- 19 It is submitted that it would be far preferable for the CMA to seek to use these powers to address this issue, rather than subject the entire industry to a MIR (with all the expense and uncertainty over an extended period which a MIR entails).
- 20 Although it is the case that the CMA’s merger control powers could not be used to address local market concentration that has not arisen through consolidation, the imposition of “*targeted structural remedies*” (Consultation, paragraph 3.33, 7th bullet) to require clinic divestiture in such circumstances would be highly invasive and draconian and would be prone to unforeseen consequences such as on incentives to invest (and PAH’s growth strategy is predicated upon it continuing to open new practices and expand existing practices, see paragraph 7(d) above).

Concern 5

- 21 This relates to whether the regulatory framework is outdated and may no longer be fit for purpose.
- 22 It is submitted that a MIR is not required for the CMA to consider, with input from all stakeholders (including PAH), “*whether the right combination of regulatory requirements and enforcement mechanisms exist*” (Consultation, paragraph 2.56) and to make appropriate recommendations to Government and other stakeholders on this.

⁹ See paragraph 7(c) above distinguishing PAH from the other large and (unlike PAH) vertically integrated corporate groups identified by the CMA.

¹⁰ i.e. PAH and the charities and small chains/independents listed at Table 1.1 of the Consultation.

¹¹ See [Medivet Group Limited / multiple independent veterinary businesses merger inquiries \(2023\)](#) and [Independent Vetcare Limited \(IVC\) / multiple independent veterinary businesses merger inquiries \(2023\)](#).

- 23 By way of illustration, we believe that the CMA can, without the need for a MIR, address:
- (a) the acute shortage of veterinary professionals by recommending:
 - (i) that the Government reviews and considers expanding student funding options for those studying to become veterinarians in the UK;
 - (ii) that the RCVS holds more than one Statutory Membership Examination per year for overseas veterinarians seeking to register in the UK;
 - (iii) that the delegation procedures in Schedule 3 of the Veterinary Surgeons Act 1966 are extended to enable registered veterinary nurses or student veterinary nurses (with appropriate supervision) to carry out more duties in order to lessen the burden on veterinarians; and
 - (iv) changes to the immigration rules and other ways to make it easier for overseas veterinary surgeons and veterinary nurses to work in the UK;¹² and
 - (b) the CMA's provisional concerns as regards the possibility of pet owners overpaying for medicines or prescriptions, by recommending:
 - (i) that the Veterinary Medicines Directorate (**VMD**) remove restrictions on the use of certain human health drugs on animals;¹³ and
 - (ii) **[REDACTED]**¹⁴, **[REDACTED]**.

Conclusion

- 24 For the reasons explained above, it is submitted that the proposed MIR scope is disproportionately broad and, indeed, most, if not all, of the CMA's concerns can be addressed by less burdensome measures.
- 25 We therefore would urge the CMA to very carefully consider whether a MIR is really necessary and to explore the alternative options (including those referred to above) which would enable the industry to avoid the high levels of expense and market uncertainty over an extended period of time, which a MIR would likely entail and which could have an adverse impact on incentives to invest in an industry where increased capacity is sorely needed to address the increased levels of demand in recent years. For instance, PAH and its practice owners are planning on investing approximately £**[REDACTED]** in the veterinary practices estate over the next **[REDACTED]** years (to add new capacity by extending existing practices and by launching new practices, as well as investments in systems and equipment).
- 26 However, should the CMA, notwithstanding the above representations, make a MIR following the Consultation, we will work closely with the CMA and continue to

¹² Changes to the immigration rules effective from 4 April 2024 ([Statement of Changes in Immigration Rules \(HC 590\)](#)) mean that PAH and other providers of veterinary services in the UK will now need to increase the salary of their international graduate vets (entry level) to a minimum of £48,100 in order for them to be eligible for a Skilled Worker visa.

¹³ Certain human health drugs could be substituted for animal drugs and are also cheaper, but this is not currently permitted by the VMD.

¹⁴ **[REDACTED]**.



cooperate fully to ensure that the sector works well for everyone and ensure that consumers can be confident that they are getting a good deal when buying veterinary services and receiving the information they need to make good choices – consistent with our overarching mission of making a better world for pets and the people who love them.