

Response to CMA market investigation into Veterinary services for household pets: Issues statement

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Executive Summary

- ✦ The scope of the market CMA’s market investigation is ambitious and to be commended.
- ✦ The characteristics of the veterinary services sector (particularly local consolidation) raises concerns that stand to disproportionately impact the ability of particular categories of vulnerable consumers to access and engage with the market effectively. The investigation would benefit from affording direct consideration to these categories of consumer.
- ✦ The Issues Statement articulates the potential for the investigation to take a deeper-dive into establishing the nature of corporate influence over practices/practitioners, and the impact this stands to have on pet owners.
- ✦ The incentives and activities of private equity-backed corporate owners likely differ from those of standard commercial owners. By moving beyond an “owner agnostic” stance, the Inquiry Group would be in a stronger position to determine the impact that the proliferation of private equity in veterinary services has had on market outcomes.

0.1 We welcome the opportunity to respond to the Inquiry Group’s Issues Statement as part of its ongoing investigation into veterinary services for household pets in the UK. The Issues Statement articulates an ambitious scope for the investigation, befitting of the complexities of the market and its numerous participants. It develops on the CMA’s initial Call for Information, offering a useful insight into the Inquiry Group’s current thinking, and establishing clear parameters regarding its hypotheses and intended approach to gathering evidence.

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- 0.2 We commend the ambition presented in the Issues Statement and share many of the Inquiry Group’s preliminary thoughts on the issues and theories of harm it intends to focus on. We wish to share some additional thoughts pertaining to the scope of the investigation, which we have drawn from documentary evidence and initial anecdotal engagement with stakeholders as part of our ongoing research into the veterinary services market, which has so far focused on the impact of corporate—and, in particular, private equity-backed—acquisitions in the sector. We draw, in part, on an initial thought piece we have published on the CMA’s use of its merger control enforcement powers to review roll-ups acquisitions in the veterinary space,¹ but wish to focus on areas of interest and concern which we believe require further exploration. For the most part, we believe the Issues Statement already indicates that the investigation is likely to engage with the areas of possible concern that we outline below, and we recognise that these may extend to a level of granular detail that the Issues Statement is (understandably) silent on. We also raise other issues which appear to sit outside the current intended scope of the investigation, but which we believe to be compatible with the CMA Board’s advisory steer, and capable of falling within the Inquiry Group’s remit. We would encourage the Inquiry Group to consider the merits of pursuing these.
- 0.3 The wide range of sources the investigation intends to draw upon (*Issues Statement*, para 25) is conducive to a comprehensive review of the market, allowing for effective engagement with key stakeholders within the profession, and complementing the evidence the CMA has already gathered from pet owners and veterinary professionals in the initial CFI.
- 0.4 We would welcome the opportunity to engage with the investigation further, as our research develops, and we are enthused by references the Issues Statement makes to further opportunities for consultation as the investigation progresses. We hope to feed-in our preliminary findings in future responses but, equally, would welcome the opportunity to discuss our research with the Inquiry Team as part of its (potential) engagement with external research on consumers and veterinary professionals.

1. Additional focus on particularly vulnerable categories of pet owners

- 1.1. We agree with the emphasis that the Issues Statement attributes to the vulnerability faced by pet owners when engaging with veterinary services, especially those who are less experienced (*Issues Statement*, para 16), or who are engaging in transactions at moments of urgency and/or where their pet is very ill (*Issues Statement*, para 35). Heightened states of emotion and information asymmetry stand to render pet owners vulnerable in an array of different scenarios, and we are pleased that this looks set to be a focal point of the investigation.

¹ David Reader and Scott Summers, ‘Paws for Thought: Putting UK vet acquisitions on a tightened leash’ (2024) Jun-II, CPI Antitrust Chronicle, 37-43.

- 1.2. In addition to the general vulnerability that all consumers may face given the nature of the market, we also wish to emphasise the potential for statutory-defined categories of vulnerable consumers to be disproportionately disadvantaged by possible market failures; namely, those who are chronically sick, disabled, of pensionable age, on low incomes, and/or residing in rural areas. In certain regulated sectors, regulators are obliged to pay ‘particular regard’ to one-or-more of these vulnerable groups when reaching decisions.
- 1.3. We observe and foresee circumstances where particular vulnerable consumers struggle to engage with the market effectively and, in extreme cases, are unable to access veterinary services at all. For example, vulnerable consumers stand to be disproportionately impacted by the closure of local veterinary practices (which we observe to arise in the aftermath of several corporate roll-up strategies), particularly pet owners who live in remote or isolated regions of the country. While it is likely that the majority of pet owners are in a position to manage the *inconvenience* of local closures, vulnerable pet owners may not have the practical means or capabilities to travel further afield to access veterinary services.²
- 1.4. For example, certain categories of vulnerable consumer are less likely to have access to private transport (or are less inclined to drive longer distances), meaning these longer journeys may need to be made using public transport. This itself is impractical for many pet owners, especially where veterinary services are sought as a matter of urgency. The timing, reliability, and calling points of public transport in remote areas may render it unviable for owners seeking to take their pet to the nearest practice. The cost of these services may also be prohibitive, as may the prospect of taking distressed or severely ill pets on to public transport. Private taxi services may be considered as an alternative but, again, costs and other factors may limit this option for some vulnerable groups, especially if taxis can only be booked in advance (a trait of rural taxi operators), and a pet owner is faced with an emergency situation.
- 1.5. The question of ‘locality’ and the willingness/ability of pet owners to travel to access veterinary services is a key determinate of whether vulnerable consumers are able to access and engage with the market effectively. We welcome the Inquiry Group’s intention to undertake a more robust analysis of the field of contestability between first opinion practices in local markets, and agree that creative metrics—such as reference to drive times, as per the CMA’s approach to the Share of supply test in recent reviews of veterinary acquisitions (*Issues Statement*, para 62)—afford one such means of defining relevant markets in the sector. However, we are mindful that—potentially as a result of the trend of corporate roll-up strategies in the sector (and subsequent closures and consolidation)—the outer perimeter of

² While anecdotal, one of the authors has learned of concerns for elderly pet owners, stemming from the recent closure of his local first opinion practice. As a result of the closure, a round trip of 2.4mi to the nearest vet has been extended to 10.2mi. A combination of issues—including limited options for public transport, and no public footpath permitting access between neighbouring towns—means private travel (e.g. by car or taxi) remains the only viable option in many cases.

‘local markets’ in the sector is likely to have gradually expanded over the past decade. For the reasons discussed, this stands to have notable implications for vulnerable consumers and their ability to access services, and we hope these nuances may be factored-in to the Inquiry Group’s consideration of market definition and potential consumer harm, as part of a holistic review of how the market is working with different categories of consumer.

- 1.6. We also acknowledge other aspects of the investigation which may be enriched by specific consideration of how vulnerable consumers engage with the market, including *inter alia* treatment decisions, and understanding their options in relation to cremation services and medicines/prescriptions.

2. Establishing the nature of corporate influence over practices/practitioners

- 2.1. Upon taking an ownership stake in a veterinary practice—or other veterinary service—it stands to reason that a corporate acquirer will seek to exert influence over the strategic operations of the practice, if not its day-to-day management. At this stage of our research, we do not seek to draw conclusions on the nature of this influence, and only wish to acknowledge the potential for this influence to impact prices and/or the process through which pet owners are recommended—or made aware of—care options.
- 2.2. We recognise that certain types of corporate influence have the potential to deliver consumer benefits through e.g. realising efficiencies, streamlining procedures and standardising approaches. However, documentary and anecdotal evidence we have encountered points towards a practice of corporate owners exerting more direct influence over how veterinary practitioners approach interactions with pet owners. The prevalence of this is unclear but we anticipate that the market investigation—by reviewing internal documents and engaging with the experiences of veterinary professionals and senior managers—will be well-placed to shed light on the nature of influence, and whether it has the potential to result in adverse outcomes for pet owners.
- 2.3. In some cases, corporate influence over the interactions between veterinary practitioners and pet owners may be subtle or indirect. For example, there have been reports that IVC Evidensia, which owns approx. 22% of first opinion practices in the UK, does not force its practices to price at a particular level. It does, however, recommend prices centrally and sets financial targets for each of its clinics.³ While not restricted by a centralised pricing system, leadership teams at IVC’s practices may feel compelled to converge towards its parent’s recommended pricing strategy, especially where financial targets are ambitious and local leaders are accountable for falling short of them. This is to highlight that the incentives of decision-makers on the consumer frontline, as well as those of corporate managers

³ Arash Massoudi, Kaye Wiggins & Robert Smith, ‘The anatomy of a private equity roll-up’ *Financial Times* (London, 22 April 2021) <www.ft.com/content/68fed97a-f411-48d7-8fd4-7f3178def4fd> accessed 30 July 2024.

themselves, have the potential to determine (to some degree, at least) the prices that pet owners encounter.

- 2.4. Other forms of influence may be more overt and direct. For example, our research project is currently exploring the evidential basis of claims that corporate owners issue veterinary practitioners with scripted scenario-based instructions to ‘push’ more profitable courses of diagnosis and treatment when pets display certain symptoms or have a pre-existing medical condition.⁴ This may, for example, manifest as pressure on practitioners to propose surgical intervention or physiotherapy where a course of medication and crate rest offers a comparable chance of recovery. It may also manifest as pressure on practitioners to cross-sell other goods/services provided by the corporate owner.
- 2.5. If this form of overt and direct influence has any prevalence in the sector, professional autonomy is potentially compromised, along with the confidence of veterinary practitioners to exercise free and independent judgement when offering recommendations, advice and guidance to pet owners. In seeking to (i) explore the incentives behind corporate owners’ decisions to adopt a specific business model (*Issues Statement*, para 26(d)), and (ii) test its hypothesis regarding the incentive/ability of large groups to provide higher cost treatment options (*Issues Statement*, paras 68-74), we hope that the Inquiry Group will be presented with evidence pertaining to the nature and prevalence of corporate influence over practitioners. If such influence is found to be present and has contributed to sub-optimal outcomes for consumers, this stands to have a bearing on the nature of the remedies that the Inquiry Group may choose to impose at the conclusion of its investigation.
- 2.6. As a related point on corporate influence over practitioners, the Inquiry Group may already be intending to explore the rationales for the common practice of pet owners being asked whether they have pet insurance before being presented with treatments options and prices. We believe this issue may align with the investigation’s intentions to consider the role of pet insurance and insurers in the supply of veterinary services (*Issues Statement*, para 19). While the profession presents justifications to this information being requested at the point of discussing treatment options (e.g. as a factor in facilitating contextualised care, or in the interests of adopting a pragmatic approach to the provision of care),⁵ we wish to understand whether corporate influence on practitioners—assuming it is present—puts pressure on vets to rely on this information when determining whether to ‘push’ more profitable treatment options or whether this may even increase the price of some of the options offered (as there is insurance in place).

⁴ To be clear, we have received no evidence to suggest that corporate owners instruct (or put pressure on) practitioners to make particular medical recommendations, but note that the information asymmetries between practitioners and pet owners means it is possible for owners to be influenced into selecting a more expensive course of treatment, even without a formal recommendation. This is particularly likely if pet owners are found to apply a price-quality heuristic when selecting treatment options.

⁵ ‘CMA Vets Report’ (You and Yours, *BBC Radio 4*, 10 July 2024), 9:18-11:08 <www.bbc.co.uk/sounds/play/m0020y2v> accessed 30 July 2024.

2.7. Finally, in addition to corporate influence that is conveyed through outright ownership, the Inquiry Group may also wish to consider the nature and degree to which influence is exerted in partnership models and partial ownership arrangements, such as Medivet’s Branch Partnership model (allowing vets to own their own clinic while being supported by Medivet),⁶ and Vets for Pets’s independent practice ownership model (allowing vets to become practice owners in partnership with Vets for Pets).⁷ Partnership models, in particular, claim to afford greater clinical and operational autonomy to vets, and it would be interesting to see whether this plays out in practice, in addition to understanding whether these models offer a solution to any possible AECs arising from corporate influence.

3. Identifying nuances between particular types of owners

3.1. We welcome the CMA’s intentions to afford specific focus to the incentives and operations of the six Large Corporate Groups in the market, as distinct from the remaining market players (*Issues Statement*, para 30). Several of the LCGs are backed by private equity groups, which have successfully increased their market shares—in large part—through targeted and prolific deployment of buy-and-build strategies, rolling-up local independent practices under a single ownership umbrella for the purpose of boosting the value of the collective fleet. We believe the business model—and, in particular, the business and exit strategies—of private equity firms warrants further distinct consideration during the investigation.

3.2. We recognise the “owner agnostic” approach that the CMA has maintained in merger control enforcement involving acquisitions by private equity firms, and the legal certainty this facilitates. However, we also note the CMA’s proactive consideration of the incentives of the acquiring party when determining the likelihood of a merger resulting in a substantial lessening of competition. Given the prominence and proliferation of private equity funding in veterinary markets, we believe the market investigation would benefit from moving beyond an owner agnostic approach and, instead, explore whether the incentives and practices of private equity-backed corporates—typically, but over-simplistically, characterised as short-term and profit-maximising—stand to present any greater or lesser risks of an AEC.

3.3. The practices discussed in section 2 (above) are possible under all ownership models, whether independent (employee-owned), commercial corporate or private equity corporate. However, we hypothesise that pressures on private equity managers to identify cost savings, increase profitability and maximise value in a relatively short space of time, may increase the likelihood of private equity managers to exert greater influence on the veterinary practitioners they employ. Equally, these pressures may heighten the risk of private equity firms facilitating other hypothetical harms articulated within the *Issues Statement*, as well as

⁶ ‘Medivet Branch Partnership: Invest in your future’ (Medivet) <www.medivetgroup.com/about-medivet/become-a-branch-partner> accessed 30 July 2024.

⁷ ‘Practice ownership’ (Vets for Pets) <www.vets4petscareers.com/partnerships> accessed 30 July 2024.

possible issues around the longevity and sustainability of veterinary service supply in local areas (i.e. once the private equity firm acts on its exit strategy).