


THE SUPPLY OF VETERINARY SERVICES FOR HOUSEHOLD PETS RESPONSE TO THE ISSUES STATEMENT

30 July 2024

Executive Summary

- Pets at Home Group Plc (**PAH**) welcomes the recognition in the Issues Statement of the need to carefully consider differences in veterinary services business models. This is highly relevant to PAH given its unique, pro-competitive, business model, structure and growth strategy. As such, some of the concerns identified in the Issues Statement (local consolidation; lack of practice ownership transparency; self-preferencing by large integrated groups) are of no or very limited application to PAH.
- PAH welcomes the Issues Statement's proposal to consider the following issues:
 - *Pet owner awareness and engagement*: While PAH is already committed to providing its pet owners with the requisite information at the appropriate time, it supports further assessment by the CMA to improve how pricing and treatment options are presented and sold.
 - .
 - *Regulatory reform*: PAH views the CMA market investigation as an opportunity to evaluate the regulatory framework and address the areas of needed reform, in particular where this would help address the acute shortage of veterinary professionals and concerns about potential overpricing of medicines or prescriptions.
- In the interests of ensuring that the analyses and evidentiary workstreams undertaken by the CMA during its investigation are robust and productive, PAH makes a number of suggestions:
 - *Surveys*: the CMA should commission representative surveys from both pet owners and veterinary practitioners to better understand factors influencing their behaviour, and to publish a more comprehensive summary of the Call for Information (**CFI**) materials submitted to the CMA.
 - *Local concentration analysis*: the CMA should multiply the proposed 80% catchment by 1.5 to capture the competitive effects from nearby practices and to examine trends over several years, as catchments can change over time. Further, practice capacity should be considered beyond just the number of Full Time Equivalent (**FTE**) vets active at the practice.
 - *Assessing price differences*: the CMA will need to address a number of limitations to its proposed econometric analysis, including the difficulty in attributing costs at the treatment level, variations depending on region, complexity of the pet's condition and stage of the process, and the unavailability of systematic market-wide data on quality and outcomes.
 - *Profitability analysis*: the CMA will need to address a number of challenges in the profitability analysis it envisages, which will likely be the centre-piece analysis conducted by the CMA, including difficulties of information gathering from a representative sample of the over 1,500 small players in the FOP market and factoring in distortions over time.
 - *Entry barriers*: the CMA should focus on the lack of available veterinary practitioners as the biggest constraint on new market entry, and explore ways

to improve the flow of new vets and veterinary nurses into the market. The CMA should also investigate [§].

- *Innovation and choice*: empirically testing the adequacy of choice and innovation is likely to be a challenging undertaking and the Issues Statement has not proposed any specific approaches to doing this. PAH welcomes the consideration of whether certain business models may impair choice.
- As to potential remedies:
 - *Information/transparency remedies*: PAH supports the CMA's efforts to increase pet owner awareness and engagement including as to price and treatment options. This needs to be carefully designed to be proportionate, enforceable, and to avoid unintended negative consequences.
 - *Pricing/charging remedies*: PAH disagrees that enforcing 'price regulation' is the right or proportionate step, certainly for the first-opinion practices (**FOP**) sector, as it would not be workable, effective or proportionate for the diverse and complex nature of veterinary services in FOPs with cost variations across regions, locations and Practices. [§].
 - *Market opening remedies*: PAH would welcome the [§]. [§].
 - *Recommendations to Government/regulatory bodies*: PAH supports the CMA's proposal to assess the suitability of the current regulatory framework and supports recommendations to Government/regulatory bodies to achieve sensible reforms to the current regime, in particular to increase the flow of veterinary workers and students into the UK and reduce the ways in which the current regime can lead to [§].

Introduction

- 1 On 9 July 2024, the Competition and Markets Authority (**CMA**) published its [Issues Statement](#) setting out: the issues the CMA will examine and its initial hypotheses about which features of the supply of veterinary services for household vets in the UK may be adversely affecting competition, the types of information and evidence that the CMA intends to gather, and the types of remedies it may consider if it finds that there is an adverse effect on competition to address. The CMA has invited submissions from interested parties on the Issues Statement.
- 2 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.
- 3 A key part of PAH's pet care business is its small animal veterinary business (**Vet Group**), consisting of 447¹ veterinary first opinion practices (**Practices**) located both inside PAH stores and in standalone locations. What makes PAH different is its business model which has grown the portfolio of practices organically (rather than through acquisition²) through a joint venture (**JV**) model whereby most of our Practices (some 81 of 447 i.e. over 18%) operate as 50/50 JVs with individual practice owners who are either vets, nurses and/or practice managers (**JV Practices**)³. The JV model is our preferred model, which gives the vets at the local level the freedom to make choices of care and prices that are most appropriate to the customers and the local communities they serve, while also giving them the administrative, financial and brand support that they need to be successful. PAH has positive ambitions to continue growing in the UK and has enjoyed success growing organically our portfolio of Practices.
- 4 PAH welcomes the opportunity to comment on the Issues Statement and looks forward to continuing to fully and actively cooperate with the CMA during the course of its investigation (as we have since the launch of the market review in September 2023).

A sector under pressure

- 5 The veterinary sector has been and continues to be under severe pressure, in particular on account of rising costs and acute staff shortages, leading to increasing pressure on staff, increasing staff stress and, in consequence, high levels of vets and veterinary nurses simply leaving the profession.
- 6 As such, PAH welcomes the statement in the Issues Statement (IS paragraph 43) that the CMA will "*be mindful of the burden on individual veterinary professionals*". The voice of the vet team needs to be heard in this investigation. And all communications

¹ As of May 2024.

² 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 and expansion of its existing Practices.

³ PAH provides various services to the practices in return for management fees.

The Vet Group also has a small number of **Group Managed Practices**, which are entirely owned and controlled by PAH. Typically, Group Managed Practices arise where a Practice owner has not yet been found for a location or where a Practice owner has needed to leave a Practice before another Practice owner can be found to purchase his/her shares. The aim of the Vet Group is to transition Group Managed Practices to JV Practices when a suitable JV Practice owner can be found.

and any remedies need to be mindful not to restrict the supply of clinical colleagues into a market already under strain.

PAH's unique, pro-competitive business model, structure and growth strategy

- 7 PAH welcomes the recognition in the Issues Statement of the need to carefully consider differences in the business models of different veterinary services businesses “*ranging from those adopted by large vertically integrated groups to single practice independently owned vet businesses*” and the extent to which differing models may involve differing incentives affecting competition and/or impacting on pricing or treatments offered (IS paragraph 25(e)).
- 8 For its part, PAH's business model and structure are quite unique in the UK veterinary services space, in that the Vet Group has a “hybrid” model which PAH believes combines many of the efficiencies and economies of scale which can be achieved through a larger corporate group⁴ with local (Practice-level) autonomy on pricing, operational and clinical decisions supporting optimal outcomes for pet owners and their pets.
- 9 This results from a business model consisting in:
- (a) **Practice-level clinical, pricing and operational autonomy:** a unique JV Practice structure covering the vast majority of the Vet Group, which guarantees that clinical, operational and pricing decisions are made locally by independent JV Practice owners with freedom to make choices that best serve the pet owners and communities they serve;
 - (b) **a FOP business, not vertically integrated:** the Practices are all FOP-focused. PAH sold its specialist referral division in 2021, as PAH concluded that its JV Practice structure undermined the strategic logic of being vertically integrated in this way (the JV Practices being free to use or not use PAH's referral division);
 - (c) **organic growth strategy:** PAH has followed a growth strategy of adding new capacity to local areas by opening new practices and extending existing practices (rather than acquiring competitors' practices⁵) which requires it to have a compelling customer proposition to attract demand and thereby to create value/grow profits⁶;
 - (d) **clear and common branding across Practices:** all of the Practices are clearly branded under our national brands (“Vets4Pets”, “Vets for Pets” and “Companion Care”); and
 - (e) **full transparency as regards treatment pricing and options:** while each of the Practices ultimately decides on a range of their own business and operational processes, the Vet Group provides support and guidance, including ensuring that price lists for routine procedures are displayed in practice waiting

⁴ The Issues Statement (IS paragraph 67) recognises that larger groups may create “*the potential for efficiencies in terms of shared management costs and allows for reduced costs through greater purchasing power (e.g. when acquiring medicines for supply to consumers)*”.

⁵ See footnote 2 above.

⁶ Over the past six fiscal years (FY2019 to FY2024), there have been a total of 184 new pet registrations at the Vet Group's practices.

areas and the options and costs as regards further treatment/non-routine procedures are discussed with customers in advance and cost estimates are provided where possible.

CMA Hypotheses/Theories of Harm (ToHs)

- 10 PAH firstly provides some overall commentary on the theories of harm identified in the Issues Statement, followed by more detailed commentary on ToHs 4 (cremations) and 5 (overpaying for medicines/prescriptions).

PAH's overall observations on the CMA ToHs

- 11 Due to PAH's unique business model, structure and growth strategy, some of the areas of potential concern which the Issues Statement identifies, including:
- (a) sector consolidation driving weak competition in some areas (IS paragraphs 59 – 66);
 - (b) lack of transparency as to vet practice ownership (IS paragraph 60); and
 - (c) whether large integrated groups might have the incentives and ability to self-preference with respect to integrated related services (IS paragraphs 75 – 82)

are of no or very limited application to PAH.

That said, PAH has a direct interest in the CMA's approach to analysing local market concentration (given the number of Vet Group Practices, each operating in its local FOP market), as well as a direct interest in how the CMA defines relevant upstream markets (where PAH is a customer/distribution channel).

- 12 On the other hand, the Vet Group, as a FOP veterinary business, readily identifies with a number of the areas of potential concern identified by the Issues Statement. In particular:
- (a) **Pet owner awareness and engagement:** PAH is committed to providing its pet owners with the requisite information at the appropriate time, to ensure they are effectively engaged and able to make informed choices on the right treatment for their needs and as regards the purchase of related services and medicines. While the Vet Group already provides considerable support and guidance to its Practices on this issue, PAH nevertheless fully supports the areas for further assessment identified at paragraphs 57 and 86 of the Issues Statement.

One aspect of this issue is the concern raised in the Issues Statement (IS paragraphs 68 – 74) with respect to whether large groups have the incentive and ability to concentrate on providing higher cost treatment and whether pet owners are informed of the range of treatments and associated risks and cost implications. PAH supports the CMA's intention (IS paragraph 74) to focus on understanding how the presentation and sale of treatment options are formulated/made and whether there are areas for improvement.

- (b) It is the case that in recent years many of the Vet Group Practices have invested in more advanced equipment and capabilities and that our vets have

increasing upskilling expectations throughout their careers. This reflects advances in veterinary care leading to new treatment options for pets, shifting expectations of pet owners on account of the increasing “*humanisation*” of their pets, and a response to the shortage of qualified vets and veterinary nurses and the consequent intense competition between veterinary practices to recruit and retain their vets and veterinary nurses. This also reflects the age profile of the Vet Group Practices. Specifically, on average the Vet Group Practices are relatively young and as they mature, they organically add more capabilities. Importantly, given the Vet Group’s unique JV-led structure, these decisions on advanced capabilities investments and staff upskilling are Practice-led. One welcome outcome of these trends is that a number of procedures/treatments which, several years ago, would have only been available as referral procedures/treatments are now increasingly available as part of the FOP service and often at a more competitive price point and far greater convenience leading to better outcomes for consumers and less stress for pets.⁷

- (c) **Upstream services and products:** as a FOP veterinary business, the Vet Group Practices are collectively⁸ an important purchaser of and/or distribution channel for services such as cremations, referral services and OOH services, and products such as pharmaceuticals and medicines, including [REDACTED]; and
- (d) **Regulatory reform:** PAH believes that the CMA market investigation represents an important opportunity to assess whether the regulatory framework is fit-for-purpose and welcomes that this is a key area of focus for the CMA (IS paragraphs 91 – 100). Already during the CMA’s market review and in [PAH’s response to the MIR consultation](#), PAH identified a number of areas of needed reform, namely:
 - (i) addressing the acute shortage of veterinary professionals by a variety of measures including:
 - (A) expanding student funding options for those studying to become veterinarians in the UK;
 - (B) that the RCVS should hold more than one Statutory Membership Examination per year for overseas veterinarians seeking to register in the UK;
 - (C) that the delegation procedures in Schedule 3 of the Veterinary Surgeons Act 1966 be extended to enable registered veterinary nurses or student veterinary nurses (with appropriate supervision) to carry out more clinical duties, which should help in increasing retention levels within the profession of both veterinary nurses (as this will likely increase veterinary nurse job satisfaction and career progression) and vets (as this will lessen the burden on veterinarians); and

⁷ Examples of such procedures/treatments in FOPs include dental radiography, endoscopy, laparoscopy and rhinoscopy. For comparison, rhinoscopy being performed in a referral centre can be up to [REDACTED] % more expensive than if performed as part of the FOP service.

⁸ Bearing in mind that each JV Practice ultimately has autonomy on what it purchases, from whom and at what price.

- (D) changes to the immigration rules and other ways to make it easier for overseas veterinary surgeons and veterinary nurses to work in the UK;⁹ and
- (ii) addressing concerns that pet owners might be overpaying for medicines or prescriptions, by:
 - (A) the Veterinary Medicines Directorate (VMD) removing restrictions on the use of certain human health drugs on animals¹⁰; and
 - (B) [REDACTED].

PAH welcomes that the Issues Statement proposes to consider a number of these issues (IS paragraphs 89 – 90 and 93).

Cremations

- 13 The Issues Statement (IS paragraphs 84 – 85) raises the concern that pet owners may not be offered appropriate choices when facing the difficult and emotional decisions around the death of a pet. PAH recognises the distressing and emotional experience for both the pet owner and veterinary practice staff when faced with these difficult decisions.
- 14 There has been a rise in cremation expenditures over time, which in part reflects greater choice available to customers. Historically, communal cremation of pets was the norm. Now, more owners choose to have their pet cremated separately (which has a higher price than communal cremation), and to have the ashes returned in a vessel or with a memorial. The choices and costs of vessels and memorial have also increased over time.
- 15 The Vet Group's veterinary professionals give the pet owner a choice of service options (including to take the deceased pet home for the owner's own disposal choices¹¹). If the pet owner selects an option to have the pet cremated, the Practice will take responsibility for storing the remains, arranging collection, and (if requested) having the ashes returned to the Practice. The Practice will then contact the pet owner to come in and collect the ashes, which is itself often a very emotional time.

⁹ 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.

¹⁰ Certain human health drugs could be substituted for animal drugs and are also cheaper, but this is not currently permitted by the VMD. Effects of this restriction can be seen in the case of [REDACTED], a medication used for the treatment of anxiety. In the absence of a veterinary version, [REDACTED] was prescribed in its human generic form, [REDACTED]. At the time, the monthly cost of the medication for a 10 kg dog was GBP [REDACTED] (excluding dispensing fees). After a pharmaceutical company licensed a veterinary version of [REDACTED], making the prescription of the human equivalent prohibited, the monthly cost [REDACTED] to GBP [REDACTED] (excluding dispensing fees).

¹¹ Based on the Vet Group's data between April 2023 until present date, approximately 29% of pet owners who had a pet pass away in practice chose to take the pet home and make their own arrangements. Most of the Vet Group customers typically value our service in managing the cremation process on their behalf, however they are also given the choice to make their own arrangements.

16 In terms of understanding how the market for cremations operates, the Vet Group makes the following observations:

- (a) *First*, the Vet Group does not own any crematoria, so comments on the market only as a purchaser of services from crematoria operators. As a group, the Vet Group does not have an [REDACTED] with any cremation operator, although we are aware that certain operators [REDACTED].¹²
- (b) *Second*, a Practice's selection of a cremation supplier is often interrelated with its selection of clinical waste disposal. There are various streams of clinical waste generated by a Practice (e.g. sharps, anatomical, pharmaceutical), each with its own legal requirements on disposal. Often it is operationally and logistically efficient to purchase all services from the same provider, even if the cremation provider collects the waste and then passes it on to a third party legally certified to process that waste. For the Vet Group Practices, it has generally (even though each Practice ultimately has decisional autonomy on this) been cheaper to procure both services together, and this also has a sustainability benefit of fewer vehicles on the road and collecting from our network of Practices.
- (c) *Third*, there are three national providers of pet cremation services, all of which are owned by large groups. These are:
 - (i) Pet Cremation Services ("PCS"), which is owned by VetPartners. PCS was a family-owned business until being purchased by VetPartners in 2021.
 - (ii) CPC Care, which is owned by IVC Evidensia.
 - (iii) CVS crematoria services.

[REDACTED] is the Vet Group's preferred supplier of pet cremation services, but Practices are free to choose their own alternative and there is no requirement to use [REDACTED]. Approximately [REDACTED]% of Practices use the centrally recommended supplier, [REDACTED], and most Practices use [REDACTED] for both cremation and clinical waste services. [REDACTED] was selected as the recommended supplier by the Vet Group through a tender process in which [REDACTED] was the other bidder able to offer national coverage ([REDACTED] chose not to participate in the Vet Group's most recent tender).

17 There has been a rapid rise in [REDACTED]. **Table 1** below, for example, shows the [REDACTED] from 2019 to 2024 for [REDACTED]. On the left-hand side are prices for the [REDACTED].¹³ On the right-hand side are [REDACTED].

18 Most customers now choose an individual cremation for their pet, with approximately 95% of the Vet Group's total revenues from cremation in FY24 coming from individual

¹² Practice owners make their own local decisions on which cremation supplier to work with. We are aware that [REDACTED] Practices (of our 447 Practices) have chosen to enter into practice-level contracts with [REDACTED]. [REDACTED]. As a group, centrally PAH would not, and cannot, commit to any [REDACTED] because each individual JV Practice owner has autonomy to choose its own suppliers to work with.

¹³ The analysis is shown for the most basic form of individual cremation for simplicity. However, there are a wide ranges of price points for different types of animal, services, and memorials.

cremations. There can be a wide range of costs for individual cremations, depending on the size of pet and the services the pet owner selects.¹⁴ Therefore, most customers select the individual cremation option even when a cheaper communal option is available.

[§<]

19 **Table 1** shows that [§<], and that there has been [§<]. There may be some legitimate reasons for these trends and differentials (such as [§<]), but PAH would welcome the CMA [§<].

20 The Vet Group follows the RCVS guidelines on charging for third-party services, in that the price that the Practices charge to the customer should reflect the price from the supplier, with no mark up. The Vet Group recommends to its Practices that they charge the customer the same (or lower¹⁵) price than the customer would receive when taking the pet to the crematoria itself.

OOH First Opinion Services

21 Veterinary surgeons in practice are required to take steps to provide 24-hour emergency cover. Most of the Vet Group's Practices rely on an external, third-party provider of OOH care, and we have experienced [§<] in this adjacent OOH market [§<]. [§<].

22 Local factors such as proximity and level of service are the most important considerations when choosing an OOH service. Therefore, given that all practices under the Vet Group have full clinical freedom in the operation of their Practice, the choice of the OOH provider sits entirely with each Practice owner.

23 The Vet Group has only [§<] practices that operate an OOH service, and these Practices provide OOH cover to just over [§<] of the Practices in the Vet Group (and in some cases other local practices outside of the Vet Group).

24 The great majority of the Vet Group's 447 Practices contract their OOH cover to an external provider, which is either a large national provider such as Vets Now, Medivet or MiNightVet, or a local independent provider.

25 Approximately [§<] Practices¹⁶ contract their OOH cover to a local [§<] in exchange for a monthly service fee of approximately [§<]. The local [§<] OOH practice sets its own consultation fees to the customer, and all financial transactions for an OOH service take place directly between the pet owner and [§<] (no money flows from the customer to the Vet Group).

26 The OOH agreements with [§<] are all signed at the Practice-level and include [§<], such as:

¹⁴ For example, the total price for an [§<] (e.g., taking the average price of the most expensive [§<] and so forth) and this would still imply that the majority of customers select [§<].

¹⁵ For example, in April 2024, the Vet Group's preferred cremation provider, [§<], but PAH chose to recommend to the Practices not to increase the fees charged to end customers.

¹⁶ See PAH's response to Q.29 of Section 3 of the CMA's s.174 notice dated 23 May 2024.

- (a) [REDACTED].
- (b) [REDACTED]. [REDACTED].¹⁷
- (c) [REDACTED].¹⁸ [REDACTED].^{19, 20} [REDACTED]. [REDACTED].

27 In practice, these [REDACTED]. This is particularly true in cases where there are [REDACTED], or where [REDACTED] being provided. In such situations, it is [REDACTED] for the [REDACTED].

28 These [REDACTED] not only affect a practice's [REDACTED]. This is because a possible [REDACTED]. To be specific, it might not be able to [REDACTED] given that it would either have to:

- (a) [REDACTED]; or
- (b) [REDACTED].

29 Such [REDACTED] ultimately [REDACTED], even though there might be [REDACTED].

[REDACTED]

30 PAH would also like to take this opportunity [REDACTED], where there appear to be [REDACTED] and [REDACTED] that result in [REDACTED] and [REDACTED].

31 In particular, [REDACTED] is the leading supplier of the [REDACTED] in the UK. **Table 2** below shows the [REDACTED] in 2023.

[REDACTED]

32 While the Vet Group has not entered into any [REDACTED] with [REDACTED] for the procurement of its [REDACTED], [REDACTED] is the only supplier that can meet the Vet Group's demand for these [REDACTED] across all its Practices centrally.

33 It is worth noting that there has been an [REDACTED]²¹, [REDACTED].

34 [REDACTED]. [REDACTED]. [REDACTED]. PAH considers that such practices of [REDACTED] could, for other smaller vet practices, act as a [REDACTED] in the market.

Evidentiary workstreams

35 The Issues Statement (IS paragraphs 103 – 115) sets out in some detail how the CMA is proposing to consider and assess outcomes such as prices, profits and levels of choice and innovation.

¹⁷ See PAH's response to Q.29 of Section 3 of the CMA's s.174 notice dated 23 May 2024.

¹⁸ [REDACTED].

¹⁹ For example, [REDACTED].

²⁰ For example, [REDACTED].

²¹ For example, see [Cat Vaccine Shortages - The Governing Council of the Cat Fancy \(gccfcats.org\)](https://www.gccfcats.org)

Surveys

- 36 The Issues Statement (IS paragraph 25) says that the CMA will “*potentially*” undertake external research with consumers and veterinary professionals. PAH considers that this external research should be carried out by the CMA.
- 37 Vets serve a large and diverse range of owners and pets, with a wide range of needs and expectations on appropriate quality of care. Given this large and diverse population, the CMA should seek to collect more comprehensive and systematic evidence from pet owners and veterinary professionals that allows meaningful and transparent analysis of concerns.
- 38 The CMA should commission a representative survey from pet owners to understand choices and drivers of behaviour. The qualitative research conducted during the market review comprised a very small sample, covering only 64 interviews with UK pet owners.
- 39 Given the importance the CMA is placing on what choices and information customers have (or would need to have) available in choosing a veterinary provider and navigating a treatment journey, robust and representative evidence from customers must be collected to inform the CMA's decision-making.
- 40 PAH would welcome the opportunity to contribute to the design of a more comprehensive survey.
- 41 The CMA should also commission a representative survey from veterinary practitioners to understand the influences on their treatment behaviour, views on how regulation should be evolved, and barriers restricting more vets from being attracted to the profession. The voice of the vet must be heard in this market investigation, particularly if any ultimate remedies will place additional administrative burdens on how vets serve their customers.
- 42 The CMA should also publish a more comprehensive summary of the Call for Information (CFI) materials submitted to the CMA. The CMA states that it received almost 45,000 submissions from pet owners and over 11,000 from veterinary professionals. The CMA refers to and relies on this CFI material at various points in the Issues Statement.²² However, there is no way to verify independently the conclusions, or strength of concerns, being referred to. We appreciate that it is not possible for the CMA Group to read and categorise all of these submissions. However, given the importance of this CFI material, particularly if the CMA does not commission (new) representative surveys, the market should be given a proportionate analysis of what was provided to the CMA about these thousands of materials.

Local concentration analysis

- 43 The Issues Statement (IS paragraph 62) explains that “[the CMA] intend to do more robust analysis to understand better the competition each FOP faces, including how far pet owners may travel to visit their vet... the nature of local competition, and the most appropriate measure(s) to assess the degree of concentration in a local area”.

²² For example, at IS paragraph 36, the Issues statement notes: “a substantial share of respondents to our CFI told us they had not received information on pricing before committing to tests or surgery”, or (IS paragraph 76): “only a minority (around one in eight) of respondents to the CFI who told the CMA about their experience of referrals said they were able to choose between different referral options provided by their practice.”

The CMA notes its analysis in the market review found that potentially 12% of postcode districts had a large corporate group with a market share over 30% and owning at least two vet practices.

- 44 In looking to define local catchments around each FOP, the CMA is likely to undertake drivetime analysis and an evaluation of where 80% of that FOP's custom comes from. PAH understand this approach, but recommends the CMA look at trends over a few years, as catchments can change. Further, in line with recent CMA local markets cases, PAH would recommend that the 80% catchment is multiplied by 1.5 to capture the competitive effects of practices located just outside the catchment.
- 45 In assessing the list of competitors active in each catchment, PAH notes the following important points:
- (a) *First*, the PAH business model means that its [redacted] JV Practices are not controlled by the group in terms of the prices or services they choose to offer, or service providers they choose to work with. The Practice owner retains independence on setting prices and services. Therefore, two Vet Group Practices located near each other can, and do, continue to compete against each other;
 - (b) *Second*, there are many local markets in which charitable providers play an important role, and these should not be automatically excluded from the analysis of choices available to customers.
- 46 The CMA is then considering evaluating the 'capacity' of each practice by considering the number of FTE vets active at the practice. This could be a relatively weak measure of capacity. Vet practices can be supported by veterinary nurses, locums, and administrative support which can enhance the offering and allow expanded capacity.
- 47 The CMA must explain how it will define markets for reference labs and cremations. These markets are likely to have local (or regional) dimensions and incumbents may have [redacted].

Assessing price and quality differences

- 48 The CMA has signalled that it will assess price and quality differences. While at times, the CMA calls out prices and quality separately (for example, an initial pricing subsection and later a subsection covering quality), we find it instructive to initially focus on how the CMA aims to assess pricing given that the quality of the treatment will be a major driver of treatment cost and is therefore a confounding factor.
- 49 On pricing, the CMA writes in IS paragraph 104 that its goal is *"to assess whether price differentials and trends are consistent with a well-functioning market"*, also noting that *"significant differences in the price of the same service or treatment across practices may raise concerns if these differences cannot be sufficiently explained by factors other than weak competition."* As the CMA acknowledges there are likely to be several challenges to this type of analysis, which may make a robust econometric analysis very difficult. Below we set out these challenges and outline the implications flowing from these challenges.
- 50 To start, there are three issues on the interaction of prices and quality/complexity.

- (a) The first issue is that higher prices are confounded with higher quality – in particular, given that quality is very difficult to measure or is simply unobservable. In the simplest terms, higher quality treatments will typically have higher costs (and so higher prices). For instance, flowing from greater complexity of the specific treatment; greater ability or expertise of the vet; and better quality of the medical supplies and equipment.
 - (b) There are secondly factors that complicate treatment which flows on to the cost and therefore price. Examples include the age of pet, medical history, comorbidities affecting the treatment, and so forth. These confounding factors will – all else equal – cause higher price treatments to be correlated with worse outcomes (even when higher quality and price treatments causally lead to better outcomes). This is because more complex circumstances lead to both higher costs and worse outcomes.
 - (c) Last, quality may also take on a time component. The most effective and economical treatment may have a higher initial cost, but this leads to a lower lifetime cost. In part because it avoids more significant costs later. In this case, if the CMA wants to make price comparisons, it may be necessary to consider the lifetime costs over a course of intervention.
- 51 When considering quality, there may be a reasonable range of views on what the most appropriate care for a pet in the circumstances may be. This is a general clinical fact and also relates to the concept of contextual care, which is referenced in IS paragraph 74. The basic premise is that a vet should tailor the level of care to the needs of both the pet owner and the animal.
- 52 Cost differences that are challenging to measure may also lead to spurious empirical results. PAH understands that the CMA is likely to consider how outcomes such as prices might link to local concentration (IS paragraph 66). One difficulty for such a price-concentration analysis is that regional differences in costs can also cause differences in concentration. More specifically, regional markets with higher costs are likely to have the fewest competitors (i.e., be the most concentrated) and have the highest prices. Therefore, the CMA may need to acknowledge that any estimated link between concentration and prices will likely pick up the effect of costs as well.
- 53 Above we have set out conceptual reasons for why econometric analysis is likely very difficult to do robustly. These challenges are roughly (1) treatment quality; (2) treatment complexity; (3) lifecycle costs; and (4) regional cost differences. PAH imagine it would be very difficult to control for these four effects in a robust manner. One alternative approach would be to restrict any analysis to a limited subset of treatments in which some of these concerns might be minimised. For example, one-off treatments which are not complex and do not have local costs. The risk of such an approach, however, is that this restricted sample may not be representative.
- 54 A last point is a practical point of how the CMA will systematically collect market wide data. In the first instance, it may be difficult to define standard treatments across practices. Second, costs are unlikely to be recorded and attributable at the treatment level. Third, there is unlikely to be systematic market-wide data on quality and outcomes. Notwithstanding that any analysis of quality and outcomes would face the conceptual issues mentioned above.

Profitability analysis

- 55 PAH understands the CMA's desire to look at Return on Capital Employed (**ROCE**) and cost of capital (**WACC**) as an outcome of the competitive process. Given the challenges of assessing prices across the country, profitability analysis will likely be the centre-piece analysis conducted by the CMA in the market investigation. However, profitability analysis in this market will be particularly challenging:
- (a) *First*, more than 40% of the market is made up by small, independent vet practices. Understanding the profitability of this part of the market is crucial to form a complete picture of the landscape – particularly where remedies will fall also on this part of the market. The CMA must collect information from a representative sample of small players, which given there are over 5,000 small practices would likely require a sample of over 300 practices to achieve statistically reliable results.²³ PAH is not convinced that “*publicly available accounting information*” (e.g. held in Companies House filings) for these small vet practices will be sufficiently detailed to conduct reliable profitability analyses – due to their small size, many may be exempt from providing detailed public accounts.²⁴ The CMA must also consider how it will measure the WACC for these small businesses, which is likely to be higher than those of larger groups.²⁵
 - (b) *Second*, PAH welcomes an analysis of [redacted].
 - (c) *Third*, PAH notes that reliable trends over time will be distorted by the COVID period. It is unlikely that a consistent five-year trend in profits will be possible.

Entry barriers

- 56 For any excess profits to be considered ‘entrenched’, there would need to be evidence of substantial entry barriers.

²³ There are c.5,000 veterinary FOPs in the UK, with around 2,000 of these being owned by smaller groups or individuals. If the CMA wants to estimate the profitability of the population of smaller players – assuming a population size of 2,000, a confidence level of 95%, and a margin of error of 5%, a sample size of c.320 would likely be needed. In its own survey guidance for mergers, the CMA explains that it aims to “*achieve a minimum of 100 completed interviews with any pre-defined group of interest for rigorous analysis*”. Please see: <https://www.gov.uk/government/publications/mergers-consumer-survey-evidence-design-and-presentation/good-practice-in-the-design-and-presentation-of-customer-survey-evidence-in-merger-cases>

²⁴ The CMA found the same problem in the Funerals Market Investigation. In that case, the CMA initially hoped to collect detailed financial information from the three largest (national) players and a representative sample of 100 (out of c.5,000) small funeral directors. However, the CMA received only 15 responses of sufficient quality from the small funeral directors. The CMA changed strategy and (i) sent out detailed requests to the next 10 largest players (no longer a representative sample); and (ii) sent out revised, simpler requests to the representative sample. Specifically, in this new request: (i) information was at the company rather than the branch level; (ii) disbursement revenues for ancillary services no longer had to be split out from core revenues; and (iii) asset registers no longer needed to be provided and Companies House (rather than bespoke) balance sheets were accepted. The CMA received a further 31 company-level responses although the quality of responses varied significantly. Therefore, there was a very limited coverage of smaller providers in the final analyses. Given this experience, it is important the CMA looks for a more comprehensive strategy to gain robust insight into the experience of smaller vets. Please see Appendix S to the CMA's Funerals Investigation Final Report on the profitability of funeral directors: https://assets.publishing.service.gov.uk/media/5fdb2461e90e071be1015708/Appendix_S_-_Profitability_of_funeral_directors_18.12.20.pdf

²⁵ A large share of FOPs are ‘small’ businesses, often ‘owner-operated’, that have a different risk profile to the six larger corporate groups. As examples, an investor in a small veterinary FOP may face additional risks because: (i) smaller provider revenues would be less diversified in terms of the products and geographic markets served, and so more volatile; and (ii) smaller providers would face greater key-person risk.


- 57 In the Vet Group's experience, entry in FOP is possible. Greenfield entry is a feature of the Vet Group's growth history and forward-looking strategy. The Vet Group last acquired FOPs from a competitor more than a decade ago in April 2013. Over the subsequent decade, the Vet Group had added more than 200 new FOPs through greenfield development, increasing our portfolio to the 447 FOPs in May 2024.
- 58 We recognise that entry is supported by a successful brand and our team offering a platform for the new vets to thrive. Many practices are co-located within our retail stores giving the vet the benefit of convenient locations, a clear and trusted brand, and the increased footfall.
- 59 The biggest constraint on new entry, in our view, is the lack of available veterinary practitioners – caused for example by changes in the rules on international veterinary practitioners entering the UK. Therefore, we would ask the CMA to assess the pipeline of new vets coming into the market, and any ways to improve that flow (see paragraph 12(d) above for some suggestions on this).
- 60 However, entry into other stages of the supply chain is more difficult, particularly where that stage is controlled by an incumbent.

Innovation and choice

- 61 The CMA says that customers may not be offered as much choice and innovation as would occur in a well-functioning market. The Issues Statement notes (IS paragraph 109) that the CMA will “*assess whether certain business models are more conducive to vets offering impartial advice to pet owners*” or (IS paragraph 12) whether “*regulatory barriers impede the development of alternative business models such as telemedicine, of the attraction of new vets into the industry.*”
- 62 PAH agrees that the CMA should look hard at business models and practices (and in particular, [REDACTED]) that restrict choice, such as through [REDACTED], [REDACTED], or [REDACTED].
- 63 As noted above, the Vet Group operates a unique JV model that gives the Practice owners clinical, pricing and operational autonomy. PAH is aware of certain service providers seeking to [REDACTED] (see paragraph 16(a) above).
- 64 However, PAH notes that empirically testing whether the amount of choice and innovation is appropriate is a very challenging undertaking. The Issues Statement currently does not propose any specific approaches, noting only that the important outcome of quality is likely to be very challenging to assess objectively. In particular, the CMA notes:
- (a) The concept of contextualised care e.g., in IS paragraph 74, “*...understand how 'contextualised care' (ie one that considers the overall circumstances of a pet and its owner) ...*”. The implication being that choice of treatment is highly specific to the circumstances.
 - (b) That different business models offer different types of treatment. There is likely to be an aspect of businesses offering different services that is driven by customer demand.

Remedies

General comments

- 65 While acknowledging that the CMA's market investigation is at a very early stage and any consideration of remedies is hypothetical absent any findings of competition concerns (IS paragraph 117), PAH agrees that it is important for the CMA to already start thinking about potential remedies.
- 66 The veterinary sector has been and continues to be under severe pressure, in particular on account of rising costs and acute staff shortages, leading to increasing pressure on staff, increasing staff stress and, in consequence, high levels of vets and veterinary nurses simply leaving the profession. It is therefore crucially important that, in making any decisions on remedies, the CMA ensures that any remedies are necessary and proportionate to any AEC findings and do not impose any unnecessary burden on vet practices and in particular on their vets and other staff. PAH is reassured that the Issues Statement (IS paragraphs 120 and 123) indicates that the CMA is alive to this sensitivity.
- 67 It is also important that any remedies are properly targeted in scope. As noted above (paragraph 5 – 7 and 9), some of the concerns identified in the Issues Statement are focused on .
- 68 PAH also welcomes that the Issues Statement (IS paragraph 122) indicates that the CMA will also factor animal welfare into any decisions on remedies. This is an important consideration entirely aligned with PAH's overriding mission to provide a better world for pets and the people who love them.

Remedy categories identified in the Issues Statement

- 69 The Issues Statement considers three categories of potential remedies: (i) information/transparency remedies; (ii) pricing/charging remedies; (iii) market opening remedies.
- 70 In addition, the Issues Statement (IS paragraphs 143 – 144) highlights that recommendations to government/regulatory bodies will be considered and, as noted at paragraph 12(d) above, PAH is broadly supportive of recommendations to make sensible reforms to the current regulatory framework, always being mindful of the need for proportionality including as regards the costs veterinary practices will incur in complying with new rules.

Information/transparency remedies

- 71 The Issues Statement (IS paragraph 36) notes that many vets do not properly advertise the prices of key treatments upfront to customers (e.g. on a website).²⁶
- 72 Under PAH's JV-led business model, ultimately it is for the individual Practice owner to decide how prices and treatment options/costs are promoted and communicated to

²⁶ IS paragraph 36 notes that over 80% of the vet practices websites the CMA visited had no pricing information at all.

pet owners.²⁷ However, the Vet Group does provide considerable support and guidance to our Practices, including as regards the extent to which and manner in which prices for more routine treatments are displayed and how treatment options and costs are communicated to pet owners throughout the treatment journey.

- 73 As such, PAH continues to support the CMA's intention to work on increasing price transparency.²⁸ All Vet Group Practices are encouraged to and in practice do prominently show price lists in the practice. It is obviously not possible to publish detailed fixed prices on all treatment journeys as these vary significantly by animal (type of animal and its comorbidities) and appropriate course of treatment. However, prices on a small set of key services could be published, including online.
- 74 To be clear, there are likely to be practical challenges in selecting the appropriate services for any price list. The selected services will need to be applicable to all vet practices and customers and also representative of prices throughout the business. There may also be unintended consequences to selecting products to be prominent. For instance, increasing the demand for these treatments relative to other more appropriate treatments or incentivising business to adopt a pricing scheme, in which there is a type of loss leading followed by other add on prices.

Pricing/charging remedies

- 75 The Issues Statement (IS paragraph 139) says that the CMA may consider regulations that would “*seek to re-align prices with costs plus a reasonable return*”, for example, “*we could consider imposing maximums for prescription fees, or maximum prices or mark-ups for other services (e.g. cremations)*”.
- 76 As noted, PAH welcomes steps to increase price and information transparency for pet owners (and the regulatory code to deliver that transparency), but we disagree that enforcing ‘price regulation’ is the right or proportionate step for the industry. It would not be workable, effective or proportionate in FOPs. There are §< could be strengthened. But even in these areas onerous price regulation is likely to be inappropriate.

Price Regulation for FOPs is Unworkable

- 77 Vets at FOPs treat a wide range of types of animals, comorbidities, and complexities. The underlying costs of FOPs themselves vary widely based on region / location, how well established the practice is, and investments into quality. There is finally the variation of around 1,500 different veterinary owners to price regulate.²⁹ This huge variation and complexity are not well suited to a third-party regulator needing to ‘set’ price maximums and thereby reasonable returns. The third-party regulator would also face the herculean challenge of keeping those prices updated and appropriate over time, as both underlying costs and treatment options change.

²⁷ The RCVS Code of Professional Conduct includes some elements which address how vets should interact with consumers, for example that they should provide sufficiently clear and easy to understand information about fees (IS paragraph 40).

²⁸ For instance, in [PAH's response to the MIR consultation](#), PAH expressed that improving price transparency would address many of the CMA's concerns.

²⁹ The IS (paragraph 29) notes: “*There are around 5,000 vet practices in the UK and around 1,500 owners of these, ranging from large groups to independent vets with a single practice*”.

- 78 Exploring, designing and moving towards a system of price regulation would be costly. Significant work would need to be done to ‘standardise’ the approaches to recording information across FOPs (many of which will not record costs on the same basis or levels of granularity), to benchmark reasonable fees across treatment pathways (which differ for different animals), to adjust for practice treatment/customer mix at the practice level, and ultimately to estimate reasonable levels of return.
- 79 The ongoing costs of such price regulation would also be significant in terms of price reviews and monitoring of compliance.
- 80 Price regulation could also lead to unintended negative consequences for competition. If price caps are relatively low, then economic incentives may result in all vets pricing near the allowed cap. Investment in service improvement and treatment enhancements may be undermined. If the price caps are set too low based on the costs of large veterinary groups (that may have lower costs, for example, due to better wholesale agreements on medical supplies), then it can have the unintended consequence of smaller vet groups exiting the market. Another possibility is that a price cap acts as a focal point, in which price competition is softened as firms choose to set prices at or near the cap.
- 81 In essence, in FOPs, the prospects of workable, effective and proportionate price regulation are extremely low. It would also likely ossify competition and investment in FOPs. Therefore, PAH does not consider it is worth exploring price regulation at the FOP level.

Narrower Price Regulation of Vets

- 82 The CMA may have in mind, however, price regulation within narrower services of the treatment journey – such as the fees for prescriptions. While a narrower regime may appear more workable, it will still likely need careful monitoring and enforcement to avoid circumvention risks and unintended consequences. An unscrupulous practice could, for example, potentially circumvent a capped prescription fee by increasing or adding another fee.

Adjacent Services Regulation

- 83 The CMA may be considering [redacted] provided to vets, such as in [redacted] and [redacted].
- 84 PAH recognises that there are [redacted].
- 85 There are also concerns where [redacted] vets in the local area) could lead [redacted]. For example, the [redacted]. This could lead to [redacted] is appropriate.
- 86 [redacted], as they would [redacted] in particular may have national markets where a [redacted] could be designed. PAH would welcome engaging more on these areas.
- 87 However, even within [redacted], [redacted] to end customers will be challenging. There are a wide range of services and geographies. [redacted]. [redacted]. Therefore, third-party control of [redacted] would be a complex and costly new regulatory regime.
- 88 One proactive step that may assist fair [redacted] is to oblige the [redacted] – so that there can be [redacted] should pricing and access disputes arise.

Market opening remedies

- 89 PAH would welcome the [§<], [§<], or [§<]. This could open up the [§<], for example, and allow increased [§<] and [§<].
- 90 PAH would also welcome the CMA making recommendations to Government on how to increase the flow of veterinary workers and students into the UK. The shrinking supply of vets and veterinary nurses is a major barrier and needs to be addressed directly. Any 'remedies' or actions which unintentionally risked slowing that flow would be a significant concern.

Conclusion

- 91 The breadth and scope of the market investigation described in the Issues Statement is extremely broad and radical in terms of the range of markets being considered, and type of remedies under consideration at this early stage in the investigation.
- 92 PAH has attempted above to provide constructive feedback to the CMA on those aspects of the Issues Statement PAH supports but also those aspects which require further consideration or which appear potentially unworkable.
- 93 Since the CMA launched its market review in September 2023, PAH has been and continues to be committed to cooperating fully with and working constructively with the CMA. PAH is fully aligned with the overall objective of the market investigation, namely ensuring that the veterinary sector works well for everyone, in particular pet owners and their pets who should be confident (based on the requisite information needed to make good and informed choices) that they are getting a good deal whenever purchasing veterinary services – consistent with PAH's overarching mission to make a better world for pets and the people who love them. PAH will continue to fully play its part to this end.