

## FEDERATION OF INDEPENDENT VETERINARY PRACTICES (FIVP)

### Response to CMA Profitability and Financial Analysis

21<sup>st</sup> November 2024

**The Federation of Independent Veterinary Practices (FIVP)** would like to thank the CMA for the opportunity to respond to the above. The information has been shared with interested parties within FIVP and the CMA may receive separate response from these.

Paragraph 4.79 – insofar as the approach to profitability analysis of the independent veterinary sector is concerned, FIVP fully appreciates the difficulty of obtaining comprehensive data from smaller practices due to limited accounting availability/reporting. Whilst this should be less of an issue with the six LCG's, nevertheless, we feel it would be helpful to be made aware of the referenced 'four mid-tier (independent) firms', in the interests of balance and transparency.

FIVP is interested to learn what is considered a normal rate of profit, that has been mentioned in the CMA Profitability and Financial Analysis document.

FIVP has been given some observations for CMA to consider from a member, with regard to profitability. We have submitted this information to you in a previous submission, but this is relative to the above and worthy of mentioning again:

- *How online pharmacies increase the overall costs to pet owners*
- *Like all businesses, veterinary practices need to make a profit. This profit is derived from professional fees (P) and medicine fees (M)*

*A reduction in medicine fee income has a consequential rise in professional fee income for a practice to remain viable.*

- *Without Online pharmacies: Total cost to veterinary client, no pharmacy =  $P + M + C$*
- *Initial savings on buying medicines from a pharmacy: Total cost to client using online pharmacy =  $P + C + m$*
- *A saving of  $M - m$  to client*
- *Loss of income to the veterinary practice =  $M$*
- *Subsequently price rises*
- *Veterinary Practice has to increase fee by  $M$*
- *New professional fee =  $P + M$*
- *New cost to pet owners =  $(P + M) + C + m$*
- *The total cost to the client has now increased by " $m$ "*

## Conclusion

- *Driving clients to the internet pharmacies increases prices unless “m” is zero or negative*
- *Net Cost of medicine = C Pharmacy margin over cost = m*

Further thoughts gained from colleagues are as follows :-

### Colleague A

Paragraph 1.3(c) - Cross subsidy between different elements of veterinary general practice is essential. Medicines are frequently needed on site for immediate use, obtaining from pharmacies be they online or bricks and mortar will cause unnecessary administration costs and delays. When considering cost of supply by general practices the mark up is relatively meaningless in comparison to the range of purchase price between small independent practices, buying groups, and corporates. Major pharmaceutical companies have astonishing price differentials world-wide. It also has to be remembered that necessary drugs in stock will have finite shelf life, and the narrower the turnover of drugs kept by a practice the more significant the cost of expired drugs.

Paragraph 2.6 - Provision of veterinary services especially if expected to provide 24/7 emergency cover in certain areas of UK means that only one practice in that immediate area can be viable. Often such practices, although surviving, do not generate profits which would be regarded as sufficient in other areas. This is simply due to lack of numbers of clients and pets, not lack of competition. Any action by CMA aimed at mainstream practices could have a disastrous impact in remote areas.

Paragraph 3.4 - There must be recognition that practices who are unable to outsource Out of Hours cover are mandated to provide OOH cover themselves. This could NEVER be provided without cross-subsidy from other components of the business.

Paragraph 4.93 The issue of staff remuneration where the vet is also the owner is a very difficult issue. This has become even more contentious with recent rise in remuneration for employed vets. In our two practices the two directors who are working vets cannot take a salary equal to the experienced vets who we need to employ. Nor can we rely on new graduates who may be easier to pay but in effect use up much of the time of mentors watching over them. In effect looked at strictly from the economic view our practices run at a loss.

As a general point I feel that the CMA must be very wary of any measures introduced having unintended consequences particularly for what might be considered vulnerable practices in vulnerable areas barely able to sustain one viable practice let alone several in competition.

Colleague B

The rise in minimum wage and national insurance contributions has significantly impacted the operational costs of independent veterinary practices. With already tight profit margins, these additional expenses have put a strain on their finances, forcing practice owners to re-evaluate their business strategies.

One of the most immediate impacts of these budget increases is on the wages of veterinary team members. Many independent practices have had to make the tough decision to either reduce working hours, freeze recruitment, or even lay off employees to manage the rising labour costs. This not only affects the livelihoods of dedicated veterinary professionals but also puts a strain on the quality of care that can be provided to animals.

Furthermore, the increased financial burden has also led to rising prices for veterinary services. Independent practices are faced with the dilemma of balancing affordable care for pet owners while covering their rising operating costs. Some practices have had to increase fees for services, which can create barriers for pet owners seeking essential veterinary care for their animals. With the cost of living continuing to be a challenge, there is concern that pet owners will not insure their pets and if they are unable to pay for treatment, their pets may suffer.

In addition to staffing and pricing challenges, independent veterinary practices are also grappling with the need to invest in technology and infrastructure to remain competitive in a rapidly evolving industry. The financial strain caused by budget increases makes it even more challenging for these practices to make necessary investments in equipment, training, and facilities to provide the best possible care for their patients.

We have also been working with and discussing the CMA Approach to Profitability and Financial Analysis Working Paper with Moore Scarrott veterinary accountants. They have made a response to your working paper which we have had access to and FIVP fully support their thoughts and findings.

On behalf of the Federation of Independent Veterinary Practices, we appreciate the opportunity to submit our views to the CMA.

We look forward to continuing to be involved with the investigation at all stages.

**ENDS**

**Federation of Independent Veterinary Practices**

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