

COMPETITION IN THE SUPPLY OF VETERINARY MEDICINES

Vets market investigation

06 February 2025

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Summary

1. This working paper assesses whether pet owners may be overpaying for veterinary medicines because of weak competition between first opinion practices (**FOPs**) as well as between FOPs and third-party retailers of veterinary medicines. It also considers whether differences in negotiating power across FOPs and third-party retailers could impact competition in the supply of veterinary medicines.

Why have we considered veterinary medicines?

2. We have focused on veterinary medicines as our emerging view is that the indicators of competition – such as retail prices and profitability – suggest that competition may not be working well for pet owners. In particular:
 - (a) The trends in medicine retail prices at FOPs appear to be consistent with there being weak competition in relation to veterinary medicines. Our provisional analysis of the average unit prices for medicines showed that they have increased by [60-70%] between 2014 and 2024.¹ This increase in average unit prices for medicines is significantly greater than comparable measures of cost inflation. Between January 2015 and December 2023, the ONS Consumer Price Index (**CPI**) for services grew by 35%.²
 - (b) [✂].³
 - (c) The level of retail prices set by FOPs appears to be consistent with the existence of weak competition in the supply of veterinary medicines. It appears to us that FOPs set retail prices that are substantially above their costs of supply. On average, retail prices for medicines at most large veterinary group (**LVG**)-owned FOPs are between four and five times their purchase costs – this is equivalent to an average mark-up on purchase costs of between 300% and 400%. Independent FOPs contacted as part of our investigation set prices for medicines that can be around twice their purchase costs – this is equivalent to a mark-up on purchase costs of 100%.
 - (d) The sale of veterinary medicines appears to be highly profitable for both LVG-owned and independent FOPs given the significant mark-ups they apply

¹ We note that we have received some submissions from the LVGs on our analysis of this data from insurers, which we have not been able to review in detail ahead of the publication of this paper. Certain LVGs have indicated that they disagree with this analysis, including identifying possible methodological errors and noting that there are significant market trends (including rising costs and increased service quality) which provide key context for the findings. Their submissions will be taken into further consideration in a subsequent paper which sets out our analysis in more detail. In the meantime, as with all our working papers, our analysis is provisional and subject to change as interested parties respond and our investigation continues.

² Source: ONS, [CPI Index: services](#).

³ [✂]

to the purchase costs of medicines when setting retail prices. FOPs also earn additional revenues associated with the retail of veterinary medicines, such as dispensing fees, which are charged when a FOP is supplying medication for the pet owner to take home with them, and administration fees for when a vet provides medication to a pet within a FOP. We intend to explore the contribution of all types of revenues and fees from the retail of veterinary medicines to the profitability of LVG-owned FOPs as part of our investigation.

- (e) The limited evidence available to date suggests that pet owners are likely to make substantial cost savings when purchasing some medicines from online pharmacies compared with purchasing them directly from their FOP. These significant price differences suggest that there is not a sufficiently strong competitive constraint from online pharmacies on the price of medicines at FOPs.
- 3. While we plan to gather more evidence on prices and profitability, there appears to be important evidence of weaker competition between FOPs, and between FOPs and third-party retailers, than we would expect in a well-functioning market.
- 4. We have heard from some vets and vet businesses that revenues from the sale of veterinary medicines at FOPs allows them to keep prices lower for other veterinary services offered to pet owners. We are continuing our work on the profitability of LVG-owned and independent FOPs, and whether the levels of profitability achieved by LVGs are consistent with a well-functioning market.⁴

Why may pet owners be overpaying for veterinary medicines?

- 5. Having identified that competition may not be working well for pet owners, we explore the reasons why this may be the case.

Pet owners may be overpaying for veterinary medicines because of difficulties they face accessing and comparing prices of veterinary medicines and associated fees when choosing a FOP

- 6. The choice of FOP is typically the first key decision relating to veterinary care made by a pet owner. When making this choice, pet owners also make secondary decisions about whether and how to seek information about their options – for example in relation to prices, services offered, and quality metrics. As pet owners are more likely to purchase certain veterinary medicines from their FOP rather

⁴ We will publish our analysis of the profitability of vet businesses in a separate working paper in Spring 2025.

than a third-party retailer, the key decision point for pet owners relating to where to buy this medication is their choice of FOP.

7. Similarly, while pet owners are inevitably not well placed – owing to the unpredictability involved – to consider the need for and price of medication to address all health concerns likely to be experienced by their pet over its lifetime, pet owners might wish to consider the cost of accessing veterinary medicines when making their choice of FOP. This cost would include the dispensing fees as well as the fee for written prescriptions provided by a vet, which is charged when a pet owner wishes to purchase veterinary medicines from a third-party retailer rather than a FOP.
8. We have therefore considered whether pet owners are overpaying for veterinary medicines because of difficulties they face accessing and comparing prices of veterinary medicines and associated fees when choosing a FOP. This would lead to more limited competition on the prices for veterinary medicines between FOPs than we would expect in a well-functioning market.
9. For the following reasons, our emerging view is that FOPs may be able to set prices for veterinary medicines and charge fees related to the provision of medication with little regard to competition between FOPs:
 - (a) FOPs provide information on the prices of only a small number of veterinary services, if they provide this information at all. These services may include vaccinations (which include a consultation as well as the administration of a vaccine) and prescription fees. The varying level and a lack of standardisation in the information provided by FOPs may make it difficult for pet owners to effectively compare prices for veterinary medicines and associated fees between FOPs and to respond to the competitive offerings of alternative FOPs.
 - (b) Only a small proportion of pet owners (around 20%) consider prices for veterinary medicines to be an important factor in their choice of FOP and an even smaller proportion (around 5%) may have considered this as the main reason for choosing their current FOP.⁵ Those that did consider prices for veterinary medicines are more likely to have considered bundled offerings (such as vaccinations) or medication that is more readily comparable (such as flea and/or tick treatments). The implication is that price competition between FOPs for most veterinary medicines is likely to be weak.
 - (c) The dispensing and prescription fees charged by FOPs vary significantly. Our analysis indicated that dispensing fees charged by FOPs typically ranged

⁵ Pet owners survey, Q13

from £0 to £20, although dispensing fees in some instances could be more than £100.⁶ Our [qualitative research with veterinary professionals](#) found that prescription fees charged by FOPs can range from £12 to £36.⁷ This variability suggests that there is no recognised benchmark in the industry for these services. FOPs may also lack the ability to access information to easily observe and quickly respond to changes in fees set by their rivals. As a result, there may be limited price competition for these standard services available at all FOPs and these fees may not reflect the incremental costs of dispensing medication or providing a written prescription.

10. These reasons could result in pet owners choosing (and staying with) a FOP that has higher costs for veterinary medicines over their pet's lifetime than an alternative FOP. This may particularly affect the prices of non-routine medication as these prices are rarely considered by pet owners when choosing a FOP.

Pet owners may be overpaying for veterinary medicines because of a lack of awareness of the options available to them and the conduct of FOPs which raises barriers for pet owners looking to use third-party retailers

11. While only veterinary surgeons can prescribe certain veterinary medicines, pet owners can choose where to purchase medication that has been prescribed by their vet. Pet owners may decide to buy veterinary medicines directly from their FOP or to buy medication from third-party retailers, in particular online pharmacies, with a written prescription provided by a vet for a fee. Requesting a written prescription may be particularly suitable for on-going medication and medicines that are easy for the pet owner to administer directly (such as flea and worming treatments or antibiotics).
12. We have considered whether pet owners are overpaying for veterinary medicines because of a lack of awareness among pet owners of the options available to them at the point of sale in FOPs and the conduct of FOPs which raises barriers for pet owners looking to use third-party retailers. This would limit the competitive constraint on FOPs from third-party retailers compared to what we would expect in a well-functioning market.
13. For the following reasons, our emerging view is that FOPs may be able to set prices for veterinary medicines with only limited regard to competition from third-party retailers, in particular online pharmacies:
 - (a) A substantial proportion of pet owners (38%) are not aware they can purchase veterinary medicines from third-party retailers with a prescription,

⁶ CMA analysis of data provided by LVGs ([redacted]); and CMA analysis of [redacted] data.

⁷ Qualitative research with veterinary professionals, Revealing Reality research report, page 29 to 30

meaning that they may not be effectively informed of their ability to do so by their FOP.⁸ The lack of effective promotion of written prescriptions to pet owners within FOPs may be one of many factors that explain why only a small proportion of pet owners (16%) purchase medication from a third-party retailer with a written prescription provided by a vet at their FOP.⁹

- (b) In addition to being unaware of their ability to request a written prescription or how to purchase from a third-party retailer, pet owners may face several barriers which prevent them from purchasing medication from third-party retailers should they wish to do so. These barriers include the level of prescription fees charged by FOPs (which may reduce or eliminate the savings available to pet owners when purchasing veterinary medicines from third-party retailers) and the use of injectable medication available at FOPs (which many pet owners might prefer not to administer to their pets themselves).
 - (c) In particular, the introduction of LVG-branded medication by two LVGs – CVS and IVC – may represent an important barrier to pet owners purchasing medication from third-party retailers. These veterinary medicines are available only from FOPs owned by CVS and IVC or – in the case of CVS-branded medication – independent FOPs who are members of CVS buying groups. To purchase an alternative from a third-party retailer, pet owners would first need to find information, from a trusted source, on the available alternatives, which would have different product names and other product characteristics, before assessing whether to accept the CVS- or IVC-branded medication from their vet. The available evidence from market participants suggests that the introduction of these branded products may serve to retain sales, and the corresponding profits, within FOPs and to prevent pet owners from purchasing veterinary medicines from third-party retailers.
14. These reasons could result in pet owners paying more for a veterinary medicine that could be purchased at a lower price from a third-party retailer with a written prescription.
15. This may particularly affect the prices of non-routine medication. We have observed a difference in purchasing behaviour among pet owners for the purchase of one-off medication (where 9% used a third-party retailer) and on-going medication (where 28% used a third-party retailer), which suggests that pet owners may be more willing to purchase on-going medication than one-off medication from third-party retailers.¹⁰ On-going medication may be more readily

⁸ Pet owners survey, Q91

⁹ Pet owners survey, Q95 and Q96

¹⁰ Pet owners survey, Q95 and Q96

comparable because pet owners have greater opportunity to acquire the information needed to shop around for these types of veterinary medicines as well as being better able to measure the outcome of the treatment.

Differences in negotiating power across FOPs and third-party retailers does not appear to impact current competition on the price of veterinary medicines

16. Our emerging view is that LVGs and buying groups have strong negotiating positions relative to manufacturers and wholesalers because of the scale of their purchases. In particular:
- (a) LVGs have strong negotiating positions relative to manufacturers for at least some veterinary medicines, particularly for products that are offered by multiple manufacturers. It appears to us that the procurement processes used by LVGs helps them to obtain larger rebates by directing their FOPs towards the purchase of one medication instead of other clinical alternatives.
 - (b) LVGs also hold strong negotiating positions in relation to wholesalers. LVGs can encourage wholesalers to pass most of the 15% discount wholesalers obtain from manufacturers through to them. Wholesalers also have a strong incentive to retain the business of LVGs given they are large and important customers.¹¹
 - (c) While LVGs generally have strong negotiating positions in relation to manufacturers and wholesalers, some hold stronger negotiating positions than others. The combined average manufacturer rebates and wholesale discounts on purchases at manufacturer list prices obtained by LVGs range from [30-40%] [REDACTED] to [60-70%] [REDACTED].¹²
 - (d) Buying groups (which are businesses that look to use the collective buying power of FOPs to negotiate and obtain larger volume rebates with manufacturers) strengthen the negotiating position of their members. The procurement process and business models of some buying groups appears to give them stronger negotiating positions, and lower purchase costs as a result, than independent FOPs and third-party retailers acting alone. The negotiating position of some buying groups appears to be comparable to most LVGs based on our provisional analysis.
17. In a well-functioning market, we would expect FOPs and third-party retailers to compete on the price of veterinary medicines, including those sold to pet owners as distinct products as well as part of a bundled offering (such as pet plan

¹¹ Wholesaler response to RFI [REDACTED]

¹² LVG responses to RFI2 [REDACTED]

products or vaccinations). Prices of veterinary medicines would be linked to the cost of supply and efficiencies of certain business models which lead to cost savings in relation to veterinary medicines would be passed on to pet owners.

18. We are currently concerned that cost savings from these efficiencies are not being passed on to pet owners to any significant extent. As set out above, the available evidence suggests that pet owners purchasing medicines from a FOP pay substantially more for a product than its purchase cost (on average, between four and five times the purchase cost of medicines for some LVGs) and that the sale of medicines is a highly profitable activity for FOPs, particularly those owned by LVGs.
19. If pet owners were to shop around to take advantage of better prices for veterinary medicines, vet businesses with more efficient business models would be better able to attract pet owners by passing through the lower purchase costs they are able to negotiate with their suppliers. Other vet businesses would lose sale volumes unless they were able to strengthen their negotiating position, such as by becoming a member of a buying group to lower their purchase costs.
20. Negotiating power might have consequences for competition where some vet businesses face barriers to negotiating competitive prices with their suppliers. We have therefore considered whether the negotiating power of some vet businesses could impact competition between FOPs as well as between FOPs and third-party retailers in relation to the supply of veterinary medicines.
21. At this stage in our investigation, we have not identified any significant barriers that smaller vet businesses face to increasing their negotiating strength with wholesalers and manufacturers. In particular, buying groups appear to be a relatively effective way for smaller vet businesses to increase their negotiating strength to a broadly similar level to LVGs, although we acknowledge that some buying groups may be better able to obtain more competitive purchase costs than others.

Next steps

22. We plan to continue to explore these concerns as part of our investigation and welcome views on the issues set out in this working paper. In particular, in response to this working paper, we would welcome submissions on:
 - (a) Pet owners' willingness to pay higher prices for medicines in return for a higher quality of service at FOPs, particularly those owned by LVGs.

- (b) The ownership of online pharmacies by LVGs and whether this may limit competition between FOPs and online pharmacies as well as between online pharmacies.
- (c) Pet owners' purchasing behaviour in relation to veterinary medicines that are more readily comparable between FOPs and third-party retailers (such as routine or on-going medication to treat chronic conditions in pets).
- (d) The ability and incentive of FOPs to charge high medicines prices to pet owners who may have a preference to purchase medication from their FOP and/or face difficulties in effectively comparing veterinary medicines between FOPs and third-party retailers.
- (e) The use of injectable veterinary medicines by vets and whether this represents a barrier that pet owners must overcome when requesting a written prescription from a FOP in order to purchase medication from third-party retailers.
- (f) The negotiating position of buying groups and whether this has weakened in recent years as the negotiating position of LVGs has strengthened. This may be as a consequence of the increasing share of FOPs that are owned by LVGs, with LVGs now owning and operating more than 60% of FOPs in the UK, as well as the wider scope of at least some LVGs' activities (including online pharmacies and buying groups).

1. Introduction to our assessment

- 1.1 Vet practices provide veterinary medicines as part of their recommended treatments for pets. Purchasing medicines directly from their vet practice can be very convenient for pet owners, and it could even be necessary when the pet needs the medicine immediately (for example, as part of a procedure carried out by a vet at the practice). Pet owners will typically pay an administration or dispensing fee when purchasing medication from a vet in addition to any fee for the consultation or procedure itself and the purchase cost of the medicine.
- 1.2 Veterinary medicines can also be obtained from third-party retailers, particularly online pharmacies, often at a lower price than that charged by vet practices. Where pet owners wish to purchase medication from a third-party retailer, they need to request a written prescription from their vet, who will charge a fee (as with administration or dispensing fees, typically in addition to any fee for the consultation itself). This may be particularly suitable for on-going medication and medicines that are easy for the pet owner to administer directly (such as flea and worming treatments or antibiotics). Vet practices must advise clients, by means of a sign displayed in the practice, that they can get a prescription and obtain the medicine elsewhere if they wish to do so.
- 1.3 As set out in our [Issues Statement](#), this investigation is considering whether pet owners might be overpaying for veterinary medicines due to a range of factors including:¹³
- (a) Pet owners choosing a FOP based on location, convenience, or recommendation, rather than considering prices (including those for veterinary medicines) in their choice of FOP;¹⁴
 - (b) A lack of awareness among pet owners of the options available to them when purchasing veterinary medicines in FOPs, such as the ability to request a written prescription to buy from a third-party retailer, including online pharmacies;¹⁵ and
 - (c) The incentive and ability that FOPs might have to deter pet owners from purchasing medicines elsewhere, for example, by not explicitly reminding them of this option, charging a high prescription fee, or by issuing prescriptions for only short periods of time, meaning that the consumer would have to pay for written prescriptions more frequently.¹⁶

¹³ [Issues Statement](#), paragraph 53(e)

¹⁴ [Issues Statement](#), paragraph 33

¹⁵ [Issues Statement](#), paragraph 53(e)

¹⁶ [Issues Statement](#), paragraph 88

- 1.4 The Issues Statement noted that we have received several representations from independent FOPs that online pharmacies sell veterinary medicines to pet owners at a price lower than the cost to many FOPs of obtaining medicines from wholesalers.¹⁷ We set out our intention to explore the drivers of differences in the purchase costs for medicines paid by LVGs, independent FOPs, and online pharmacies as part of this investigation.
- 1.5 This working paper provides an overview of our emerging thinking on these issues.

Approach to our assessment

- 1.6 As set out in our overview paper, in our assessment of whether competition is working effectively in the supply of veterinary medicines, we are testing whether any feature or combination of features restricts or distorts competition in the vet services market in the UK and is causing or contributing to an adverse effect on competition (**AEC**).

Veterinary medicines and a well-functioning market

- 1.7 As part of this assessment, the CMA uses the concept of ‘a well-functioning market’ as a theoretical benchmark against which to assess an AEC. A well-functioning market is one that displays the beneficial aspects of competition which make markets work well for customers and ultimately leads to the best outcome for consumers, but not an idealised, perfectly competitive market.
- 1.8 For the supply of veterinary medicines, we have considered that a well-functioning market would have the following features consistent with those outlined in section 3 of our overview paper.
- 1.9 On the **demand-side** of a well-functioning market, to the extent that the price of medicines differs between FOPs and third-party retailers, we would expect pet owners to be informed of that and, in addition to other factors, consider the prices of veterinary medicines when choosing a FOP or switching to a third-party retailer. The customers of a FOP would reassess their options if higher medicine prices meant that the FOP was not offering value for money across its services compared to other FOPs and third-party retailers of veterinary medicines. Where pet owners are recommended medication by their vet, pet owners would be aware of the option to use a third-party retailer by requesting a written prescription and face no significant barriers to comparing prices for a given product between FOPs and third-party retailers. Pet owners would be able to switch between FOPs as

¹⁷ [Issues Statement](#), paragraph 89.

well as between FOPs and third-party retailers to take advantage of better prices for veterinary medicines.

- 1.10 On the **supply-side** of a well-functioning market, we would expect FOPs and third-party retailers to compete on the price of veterinary medicines, including those sold as distinct products as well as part of a bundled offering (such as vaccinations and pet plan products). Third-party retailers, in particular online pharmacies, would be able to attract pet owners looking for veterinary medicines and provide them with the medication prescribed by their vet. FOPs and third-party retailers would be able to negotiate competitive prices with their medicine suppliers, either directly or through membership of buying groups, and be able to access similar commercial terms for a given volume of purchases.
- 1.11 **Regulation** in a well-functioning market would be effective to safeguard animals, protect public health and environmental welfare, and secure the supply of veterinary medicines. Regulation could also, for example: ensure transparency and mitigate information asymmetries (including as to the choices available to consumers, such as the distinction between clinical services and supply of medicine products); and encourage clinical and consumer confidence in regulated products, while also taking into account how the benefits of competition in the supply of veterinary medicines can be retained. See our working paper on the **Regulatory Framework for Veterinary Professionals and Veterinary Services** for a more detailed exploration of these issues.
- 1.12 Because of these features, in a well-functioning market pet owners would pay competitive prices for veterinary medicines. This would be because they would be aware of their ability to use a third-party retailer, make comparisons between FOPs charging higher or lower prices for medicines, and consider this when choosing a FOP or using a third-party retailer. As a result, competition between FOPs as well as between FOPs and third-party retailers in the supply of veterinary medicines would occur 'on the merits'. Prices of veterinary medicines would reflect the cost of supply and that, where efficiencies of certain business models lead to cost savings, these cost savings would be passed on to pet owners through lower retail prices. This competition would encourage FOPs to embrace efficiencies of certain business models and to negotiate competitive prices with their medicine suppliers. We would expect no excess industry profit for the supply of veterinary medicines at the retail level of the supply chain over a sustained period.

Veterinary medicines and our theories of harm

- 1.13 To provide focus and structure to our assessment of competition in the supply of veterinary medicines, we have formulated a number of 'theories of harm'. A theory of harm is a hypothesis of how harmful competitive effects might arise in a market

and adversely affect customers. The use of the term does not imply any prejudgement of an AEC in a given market.

- 1.14 Based on our Issues Statement and our current understanding of the nature of competition in the supply of veterinary medicines (both on the demand side, as set out in the working paper on **How People Purchase Veterinary Services**, and on the supply side, as set out in the following **Nature of competition** section), we are considering whether:
- (a) Pet owners are overpaying for veterinary medicines because of difficulties they face accessing and comparing prices of veterinary medicines and associated fees when choosing a FOP and the corresponding limited competition on the prices for veterinary medicines between FOPs (**Competition between FOPs**).
 - (b) Pet owners are overpaying for veterinary medicines because of a lack of awareness among pet owners on the options available to them at the point of sale in FOPs, and the conduct by FOPs which limits the competitive constraint on FOPs from third-party retailers (**Competition between FOPs and third-party retailers**).
 - (c) Differences in negotiating power across FOPs and third-party retailers could impact competition between FOPs as well as between FOPs and third-party retailers in relation to the supply of veterinary medicines (**Negotiating power and its consequences for competition**).
- 1.15 These theories of harm are assessed, and the mechanisms through which they may result in an AEC are explained, later in this working paper. We have set out our emerging views about whether some features (or combination of features) of the market might prevent, restrict, or distort competition in connection with the supply of veterinary medicines such that they may give rise to an AEC.
- 1.16 The working paper on the **Regulatory Framework for Veterinary Professionals and Veterinary Services** sets out our emerging view on whether the current legal and regulatory framework for veterinary medicines might prevent, restrict, or distort competition in connection with the supply of veterinary medicines.

Structure of this working paper

- 1.17 The remainder of this working paper is structured as follows.
- (a) Section 2 sets out our current understanding of the nature of competition in the supply of veterinary medicines.

- (b) Section 3 sets out our current understanding of the outcomes of competition.
- (c) Section 4 sets out our current assessment of whether pet owners may be overpaying for veterinary medicines and associated fees because of difficulties they face in accessing and comparing prices of veterinary medicines and associated fees when choosing a FOP, as well as the corresponding limited competition between FOPs on the price of veterinary medicines and associated fees.
- (d) Section 5 sets out our current assessment of whether pet owners may be overpaying for veterinary medicines because of their lack of awareness of the options available to them at the point of sale in FOPs and the incentive of FOPs to act in a way which may limit the competitive constraint on FOPs from third-party retailers.
- (e) Section 6 sets out our current assessment of the impact that differences in negotiating power across FOPs and third-party retailers could have on competition between FOPs as well as between FOPs and third-party retailers in relation to the supply of veterinary medicines.
- (f) Section 7 briefly sets out our plan to publish a working paper on remedies in Spring 2025.
- (g) Section 8 sets out how to respond to this working paper.

2. Nature of competition

- 2.1 In this section, we set out our understanding of the nature of competition in the supply of veterinary medicines.
- 2.2 We describe how the veterinary medicines industry operates, the manufacture and distribution of veterinary medicines to FOPs and retailers, and the options available to pet owners when purchasing medication for their pet. We also set out the main competitive dynamics that influence the supply of veterinary medicines in the UK.
- 2.3 These factors are relevant for our emerging thinking on the theories of harm set out above as they may contribute to pet owners overpaying for veterinary medicines as well as the negotiating power of FOPs and third-party retailers of veterinary medicines. However, this section does not seek to undertake a competitive assessment of the market or assess whether a feature or features of the market give rise to an AEC.
- 2.4 This section is structured as follows:
- (a) We outline the nature of veterinary medicines, including the characteristics of these products as well as the legal and regulatory framework that applies to these products and any potential substitutes to these products.
 - (a) We provide an overview of manufacturers of veterinary medicines, including the products they offer, the setting of list prices for these products, and the rebate schemes used to win and retain business from FOPs and third-party retailers.
 - (b) We describe the distribution of veterinary medicines to FOPs and third-party retailers, including the use of wholesalers by manufacturers and the direct supply to FOPs and third-party retailers by some manufacturers.
 - (c) We describe the retail of veterinary medicines to pet owners, particularly the ‘gatekeeper’ role played by vets in FOPs and the main third-party retailers available to pet owners when purchasing medication – online pharmacies.
 - (d) We provide a summary of our current understanding of the supply of veterinary medicines.
- 2.5 Where relevant, we have also taken evidence on the behaviour of pet owners, as well as the information available to them when making decisions in the veterinary services market, from the working paper on **How People Purchase Veterinary Services**. Our full assessment of pet owner decision-making in relation to veterinary services can be found in that working paper.

Nature of veterinary medicines

2.6 In this sub-section, we outline the nature of veterinary medicines, including the characteristics of these products as well as the legal and regulatory framework that applies to these products, and any potential substitutes to these products.

Veterinary medicines have specific product characteristics

2.7 A vet may use a veterinary medicine while directly treating a pet, such as when treating a health concern of an animal as part of a consultation or the anaesthetic used in a clinical procedure. Veterinary medicines may also be prescribed by a vet for treatment beyond the practice, for example a course of medication to treat a chronic condition or antibiotics to be administered by pet owners.

2.8 We use the term ‘prescribe’ in this paper broadly. This refers to the clinical decision to treat a particular condition with a particular medicine and includes a vet doing the following things:

- (a) Deciding to use a particular medicine as part of a clinical procedure within an FOP;
- (b) Selecting and dispensing a medicine to a pet owner for treatment outside the FOP (such as for a chronic condition); and
- (c) Issuing a written prescription for a medicine to be purchased by the pet owner elsewhere. For clarity, for this option we use the term ‘written prescription’.

2.9 Veterinary medicines differ in how they are administered. Some medication is available in the form of tablets or liquid suspensions that pet owners may be comfortable giving to their pet. Other types of medication, such as those that are required to be injected to treat the animal, may be more appropriately administered by the vet (such as during a clinical procedure) or because the pet owner feels less confident in doing so.

2.10 Some veterinary medicines, as well as some other veterinary services, can be considered credence goods.¹⁸ As set out in the working paper on **How People**

¹⁸ In economics, a market for credence goods is one in which the average consumer is unable to identify the quality of the good or service which best fits their needs and thus consumers rely on an expert who both diagnoses and sells the goods or service to them. Examples of markets for credence goods include healthcare, repair, legal services and financial advice services. The informational asymmetries between the seller and the buyer in a credence goods market and the proximity of the seller to the financial rewards of the transaction create incentives for three types of inefficiencies, namely: overtreatment, undertreatment and overcharging. These problems are exacerbated by the fact that often in markets for credence goods the consumer is unable to assess the quality of the product they have received even after trade has concluded (Kerschbamer and Sutter 2017, Balafoutas and Kerschbamer 2020).

Purchase Veterinary Services, it is difficult for pet owners to know what their pets' health needs are, or to evaluate the quality of service received, even retrospectively. There is therefore an information asymmetry between pet owners and veterinary professionals, and pet owners must rely on veterinary professionals as trained experts to recommend what services a pet needs and then to provide those services.

- 2.11 We consider that, while some veterinary medicines are credence goods, some are more comparable by pet owners (for example, vaccinations or flea and worm treatments). This is explored further in the **Competition between FOPs** and **Competition between FOPs and third-party retailers** sections below.

Veterinary medicines are highly regulated products

- 2.12 Veterinary medicines, defined as veterinary medicinal products (**VMPs**) in the Veterinary Medicines Regulations 2013 (as amended)¹⁹ (**VMRs**), are 'any substance or combination of substances presented as having properties for treating or preventing disease in animals'.²⁰ Veterinary medicines are highly regulated to protect animals, those administering the products, consumers of animal produce, and the environment. These regulations apply not only to companion animals, such as household pets, but also to animals reared for human consumption.
- 2.13 The regulation of veterinary medicines impacts their supply and administration. Regulatory requirements must be satisfied before a medicine can be introduced into the market and the distribution classification (**Classification**) resulting from the regulatory process determines who may sell it to animal owners, administer it to pets, and under which settings these actions should be performed. This is to ensure the safety, quality and efficacy of veterinary medicines.

Kerschbamer, R., & Sutter, M. (2017). The economics of credence goods – A survey of recent lab and field Experiments. CESifo Economic Studies 63: 1-23. Balafoutas, L., & Kerschbamer, R. (2020). Credence goods in the literature: What the past fifteen years have taught us about fraud, incentives, and the role of institutions. Journal of Behavioral and Experimental Finance, 26, 100285.

¹⁹ As amended by The Veterinary Medicines (Amendment Etc.) Regulations 2024. The original Veterinary Medicines Regulations 2013 apply to all the United Kingdom (UK) – i.e., England, Wales, Scotland, and Northern Ireland. However, the amendments that came into effect in 2024 only apply in Great Britain (i.e., England, Wales, and Scotland). As such, the amended VMRs provide, in effect, two sets of Regulations having effect in GB and Northern Ireland, respectively.

²⁰ Section 2 of the VMRs also defines VMPs as any substance or combination of substances that may be used in, or administered to, animals with a view either to restoring, correcting or modifying physiological functions by exerting a pharmacological, immunological or metabolic action, or to making a medical diagnosis; or any substance or combination of substances that may be used for the purpose of euthanising an animal. For the avoidance of doubt, we have not included medicated feeds or feed additives within the scope of our investigation.

- 2.14 The main piece of legislation regulating veterinary medicines in the UK is the VMRs,²¹ which have their foundations in European law. The responsible body for the VMRs is the Veterinary Medicines Directorate (the **VMD**) which is an executive agency sponsored by the Department for Environment, Food and Rural Affairs (**Defra**). The VMRs set out how veterinary medicines must be marketed, manufactured, supplied and used.
- 2.15 No veterinary medicine may be supplied or administered in the UK unless it has a current Marketing Authorisation (**MA**).²² Each MA stipulates the species and conditions for which the veterinary medicine may be used. There may be several MAs in respect of the same veterinary medicine. This can happen if it is marketed under more than one name or by more than one veterinary medicine manufacturer, either under licence or because it is a copy of an out-of-patent medicine (a 'generic').
- 2.16 As part of its assessment of applications for MA, the VMD considers what Classification to give. The VMD makes a judgement based on its assessment of risk in the light of factors such as the properties of the product (for example the toxicity of the product to the animal, the individual administering it and to the environment), its intended use and means of administration, and the proposed classification submitted by the MA applicant during the authorisation process.
- 2.17 There are four Classifications relevant for our understanding of the supply of VMPs:
- (a) Prescription-only Medicine – Veterinarian (**POM-V**). These must be prescribed by a veterinary surgeon, who must first carry out a clinical assessment of the animal under their care.²³ POM-V products include medications that are: administered to animals regularly on a longer-term basis to treat a chronic condition; routinely administered to animals, such as vaccines, or parasiticides (such as worming treatments); and a necessary component of other clinical activities, such as anaesthetics.

²¹ Other relevant pieces of legislation include the Misuse of Drugs Regulations 2001 (MDR) and the Misuse of Drugs Regulations (Northern Ireland) 2002 as some substances used within the context of veterinary services are also Controlled Drugs (CDs). The regulations relating to CDs are controlled by the Home Office, but the general regulation and enforcement of CDs is jointly undertaken by Home Office, the Veterinary Medicines Directorate, and the Royal College of Veterinary Surgeons.

²² With the exception of the Exemptions for Small Pet Animals (ESPA) which permits certain medicines to be placed on the market without an MA subject to certain conditions.

²³ An animal is under a veterinary surgeon's care when the veterinary surgeon is given, and accepts, responsibility for the health of an animal. A veterinary surgeon who has an animal under their care must be able, on a 24/7 basis, to physically examine the animal, or have made arrangements for another vet to do so on their behalf (see paragraph 4.10 RCVS Supporting Guidance to the Code of Conduct). For further discussion of the definition of 'under care'. For more see the working paper on **Regulatory Framework for Veterinary Professionals and Veterinary Services**.

- (b) Prescription-only Medicine – Veterinarian, Pharmacist, Suitably Qualified Person (**SQP**) (**POM-VPS**). These may be prescribed in circumstances where a veterinary surgeon has carried out a clinical assessment and has the animal under their care. However, the VMRs also provide that POM-VPSs may be prescribed in circumstances where the veterinary surgeon, pharmacist or SQP (together, **Registered Qualified Persons (RQPs)**) has made no clinical assessment of the animal and the animal is not under the prescriber’s care. However sufficient information about the animal and the way it is kept must be known to the prescriber in order to prescribe and supply appropriately.²⁴ POM-VPS are predominantly used in farm animals and horses to reduce or prevent effects of endemic diseases (such as internal and external parasites and some vaccines).²⁵
- (c) Non-Food Animal – Veterinarian, Pharmacist, SQP (**NFA-VPA**), may be supplied in circumstances where an RQP is satisfied that the person who will use the product is competent to do so safely, and intends to use it for the purpose for which it is authorised. These medicines do not require a prescription and are often used routinely to prevent or limit the effects of endemic disease in companion animals.²⁶ Examples include wormers and wound sprays for companion animals.²⁷
- (d) Authorised Veterinary Medicine – General Sales List (**AVM-GSL**). There are no legal restrictions in the VMR for the retail supply of veterinary medicines classified as AVM-GSL (over the counter medicine) but a responsible approach to the supply of these medicines is still expected. AVM-GSLs have a wide margin of safety and are used to alleviate or prevent the signs of disease or support the treatment of common ailments.²⁸ Examples include dietary supplements and certain flea products.

2.18 Taken together, POM-Vs and POM-VPSs are defined as Prescription-Only Medicines (**POMs**). The classification of veterinary medicines is explored further in the working paper on the **Regulatory Framework for Veterinary Professionals and Veterinary Services**.

2.19 While only veterinary surgeons can prescribe certain veterinary medicines (POM-Vs), pet owners are able to buy veterinary medicines directly from third-party retailers, in particular online pharmacies, with a written prescription from a vet. Other veterinary medicines, such as over the counter preventative treatments for

²⁴ NOAH Compendium, Legal Category.

²⁵ AMTRA, what medicines can RAMAs prescribe and/or supply?

²⁶ VMD, Veterinary Medicines Guidance Note No 3, Guidance for Retailers (2014).

²⁷ NOAH, Topics, Regulation, Controls on Veterinary Medicines.

²⁸ VMD, Veterinary Medicines Guidance Note No 3, Guidance for Retailers (2014).

fleas, can be bought by pet owners from third-party retailers without a written prescription.

- 2.20 The regulatory controls on VMPs after authorisation and classification also include the continued monitoring of safety and efficacy, through pharmacovigilance. This imposes further requirements on MA holders, including the need to report any suspected adverse events to the VMD.²⁹
- 2.21 As set out above, veterinary medicines are authorised for specific conditions for specific target species (for example, to treat arthritis in dogs). However, sometimes there is no authorised medicine available for the treatment of a particular combination of species and condition. In these circumstances, a veterinary surgeon may make use of a risk-based decision tree called the Cascade to help them to decide what to prescribe. The Cascade is explored further in the working paper on the **Regulatory Framework for Veterinary Professionals and Veterinary Services**.

Manufacture of veterinary medicines

- 2.22 There are around twenty-five manufacturers that supply veterinary medicines in the UK, at least four of which also manufacture human medicines.³⁰ Many of these manufacturers operate globally, supplying the UK through local subsidiaries.³¹
- 2.23 In this sub-section, we set out our current understanding of the products offered by manufacturers, how they set list prices for these products, and the rebate schemes used by manufacturers when competing to supply volumes to FOPs and third-party retailers.

Manufacturers offer branded and generic veterinary medicines

- 2.24 As noted above, manufacturers are required to obtain MAs for each veterinary medicine they supply in the UK. As this requires them to demonstrate its safety, quality and efficacy, the regulatory requirement to obtain an MA affects the timing and costs of bringing new veterinary medicines to market. As with other markets for pharmaceutical products, the entry of new veterinary medicines is further constrained by some being patented, which prevents manufacturers from bringing generic alternatives of these medicines to market. The role MAs play in shaping the market for prescribed veterinary medicines is explored further in the working

²⁹ [Guideline I Pharmacovigilance systems, including risk management - GOV.UK](#)

³⁰ National Office of Animal Health, as of 1 October 2024, provided to the CMA by NOAH on 4 October 2024

³¹ Medicine Manufacturers responses to RF11, Q2(a) [☒]

paper on the **Regulatory Framework for Veterinary Professionals and Veterinary Services**.

- 2.25 Another recent development in the manufacture of veterinary medicines is the emergence of ‘own brand’ products (**Own Brand**). These products are versions of medicines that, rather than having the brand name of a manufacturer, have the brand name of the retailer or distributor of the product. All these products will contain the same active ingredient as the manufacturer-branded medicine and will use the same dose to treat the same disease.
- 2.26 We have found that two LVGs – CVS and IVC – have Own Brand products.³² This is discussed further in the **Competition between FOPs and third-party retailers** section below.

Manufacturers suggest retail prices for the veterinary medicines they produce

- 2.27 Manufacturers set a list price for their veterinary medicines, which is the retail price suggested by manufacturers and is used as a reference point in negotiations on rebates and discounts as well as by FOPs and retailers when setting prices for pet owners.
- 2.28 One manufacturer [REDACTED] outlined that it takes a ‘value-based’ approach to list price setting when bringing new branded veterinary medicines to market.³³ This manufacturer conducted research prior to the launch of their products, considering factors including: similar products in the market, the differentiated benefit of the product (for example, an improvement in the convenience of administration), the activities of their competitors in relation to the new product, and pet owners’ likely willingness to pay for the new medication. We note that this manufacturer did not consider the prices of equivalent or similar human medicines when setting the list prices for the veterinary medicines it manufactures. Another manufacturer [REDACTED].³⁴ [REDACTED].
- 2.29 Some manufacturers [REDACTED], [REDACTED] told us that prices for generic versions of existing branded medicines are set with consideration to the price of competing products, the costs of inputs and production, and other external pressures such as cost inflation.³⁵ One manufacturer [REDACTED] noted that generic versions of existing products face a higher level of competition in the market, which means that list prices are set with reference to alternative products as well as internal factors such as the

³² CVS RF111 Response, Q24, 25 November 2024; IVC RF111 Response, Q24, 25 November 2024. See also: [MiPet & EqueVet-Pro | CVS Group](#); [IVC Evidensia announces first exclusive brand POM-V](#).

³³ Medicine manufacturer response to RF11, Q2(b) [REDACTED]

³⁴ Medicine manufacturer response to RF11, Q2(b) [REDACTED]

³⁵ Medicine manufacturers response to RF11, Q2(b) [REDACTED]

time needed to develop and bring the generic version to market.³⁶ Another manufacturer [redacted] noted that the originator product (defined as the authorised veterinary medicine used as the reference product for generic versions) will tend to set the benchmark list price for any subsequent versions of the product that are released.³⁷

Manufacturers offer rebates to FOPs and third-party retailers who purchase their products

- 2.30 While manufacturers consider competitive pressures when setting list prices for their products, we have found that an important driver of competition between manufacturers when winning and retaining business from FOPs and third-party retailers is the level and structure of rebates.
- 2.31 Rebates are typically a percentage discount applied against the list price for a product set by the manufacturer. While the same veterinary medicine sold by FOPs and third-party retailers will have the same list price, the cost to FOPs and third-party retailers of purchasing this product will depend on the rebates they are able to obtain from manufacturers. These rebates are paid directly to FOPs and third-party retailers even where the product has been supplied by manufacturers through wholesalers.
- 2.32 Most manufacturers ([redacted], [redacted], [redacted], [redacted], [redacted], [redacted]) and LVGs ([redacted], [redacted], [redacted], [redacted]) contacted as part of our investigation told us that the volume of purchases made at a product (or a product category) level were typically a key factor in determining rebates.³⁸
- 2.33 When negotiating rebates, manufacturers ([redacted], [redacted], [redacted], [redacted], [redacted], [redacted]) and LVGs ([redacted], [redacted], [redacted], [redacted]) said that projected and/or historic purchase volumes were typically a key factor used to determine the level of rebates.³⁹ One LVG [redacted] outlined that there was ‘no standard rebate calculation and each manufacturer is different in their approach’, noting that rebates can be negotiated ‘around volumes purchased from the manufacturer either in terms of the individual product, the product group, the basket of products purchased or total purchases with the manufacturer’.⁴⁰

³⁶ Medicine manufacturer response to RF11, Q2(b) [redacted].

³⁷ Medicine manufacturer response to RF11, Q8 [redacted].

³⁸ Medicine manufacturer responses to RF11, Q11 [redacted] and LVG responses to RF13, Q16,48 [redacted]. However, one LVG ([redacted]) noted that there was no standard method to rebate calculations, and every manufacturer had a different approach (see: An LVG [redacted] RFI Response, Q48, 14 June 2024).

³⁹ Medicine manufacturer responses to RF11, Q11 [redacted] and LVG responses to RF13, Q16,48 [redacted].

⁴⁰ LVG response to RFI 3, Q48 [redacted].

- 2.34 Another LVG [redacted] told us that manufacturers might also consider the advantages to supplying to that LVG in determining rebates.⁴¹ These advantages may [redacted]. One manufacturer [redacted] [redacted]; it said it may offer additional rebates to reflect efficiencies generated through centralised procurement used by LVGs and other larger corporate customers.⁴²
- 2.35 We have seen mixed evidence on whether the rebates offered by manufacturers are linked to retail sales by FOPs and third-party retailers or whether they also cover business-to-business sales. For example, one rebate agreement [redacted] states that its terms are only applicable to retail sales to end users, not sales to third-party retailers.⁴³ However, another rebate agreement [redacted] focuses on [redacted].⁴⁴

Buying groups enable FOPs and third-party retailers to obtain larger rebates

- 2.36 Given that rebates are based on the volume of purchases made at a product (or a product category) level, it could be expected that independent FOPs and third-party retailers would not be able to benefit from manufacturer rebates to the same extent as those with greater volumes (such as an LVG, particularly the ones with the most FOPs). However, we have found that independent FOPs and online pharmacies have joined or formed buying groups to strengthen their negotiating position with manufacturers by pooling their purchase volumes. As a result, as set out in **Negotiation power and its consequences for competition** section below, buying groups can obtain similar rebates to some LVGs.
- 2.37 The purpose of buying groups is to use the collective buying power of their members to negotiate and obtain larger volume rebates with manufacturers than would be available to individual members acting alone. Independent FOPs and online pharmacies that choose to form or join an existing buying group could therefore strengthen their negotiating position, thereby lowering the purchase price they pay for veterinary medicines and reduce the administrative costs associated with invoicing from wholesalers and payment of rebates from manufacturers.
- 2.38 The impact of manufacturer rebates on the purchase costs of FOPs and third-party retailers, as well as the strength of negotiating positions held by LVGs, buying groups, independent FOPs, and online pharmacies, is assessed in the **Negotiation power and its consequences for competition** section below.

⁴¹ LVG response to RF12, Q16 [redacted].

⁴² Medicine Manufacturer response to RF11, Q2(b) [redacted].

⁴³ LVG response to RF13, Q48 [redacted].

⁴⁴ Medicine Manufacturer response to RF11 [redacted].

Distribution of veterinary medicines

- 2.39 As set out in the working paper on the **Regulatory Framework for Veterinary Professionals and Veterinary Services**, the VMRs require that FOPs buy their medicines from a provider that is licensed for wholesale supply by either holding a manufacturer's authorisation or a wholesale dealer's authorisation.⁴⁵
- 2.40 In this sub-section, we provide an overview of the distribution of veterinary medicines to FOPs and third-party retailers, including the use of wholesalers by manufacturers and the direct supply to FOPs and third-party retailers by some manufacturers.

Most manufacturers distribute veterinary medicines through wholesalers

- 2.41 Most manufacturers active in the UK only sell veterinary medicines to FOPs and third-party retailers through wholesalers.
- 2.42 There are three main wholesalers in the UK: [REDACTED], [REDACTED], [REDACTED].⁴⁶ Another wholesaler [REDACTED] focuses mainly on non-household animals,⁴⁷ and one other wholesaler operates exclusively across Northern Ireland and Ireland [REDACTED].⁴⁸
- 2.43 Regulation limits the wholesale supply of veterinary medicines to businesses that have either a manufacturer's authorisation or a wholesale dealer's authorisation (other than where a retailer supplies another retailer 'for the purpose of alleviating a temporary supply shortage that could be detrimental to animal welfare').⁴⁹ A wholesale dealer's authorisation is a specific authorisation granted by the VMD if the requirements of the VMRs are complied with by the business applying for it (such as such as having safe storage and competent staff).⁵⁰ The role of regulation in setting the terms of wholesale supply is discussed further in the working paper on the **Regulatory Framework for Veterinary Professionals and Veterinary Services**.
- 2.44 Wholesalers purchase veterinary medicines in bulk directly from manufacturers, and then sell them on to customers in smaller quantities.⁵¹ These medicines are stored in warehouses and delivered directly to FOPs and retailers, mainly using the logistics operations of wholesalers.⁵² Wholesalers invoice customers and

⁴⁵ VMRs schedule 3, paragraph 3.

⁴⁶ Each of these wholesalers identified the other two as their main competitors in the UK. See: Wholesaler responses to RFI1, Q1(c) [REDACTED]

⁴⁷ Wholesaler response to RFI1, Q1(a) [REDACTED].

⁴⁸ Wholesaler response to RFI1, Q1(a) [REDACTED].

⁴⁹ VMRs schedule 3, paragraph 3.

⁵⁰ VMRs schedule 3, paragraphs 18 to 21.

⁵¹ Wholesaler response to RFI1, Q1(a) [REDACTED].

⁵² Wholesaler response to RFI1, Q2(a) [REDACTED].

share data on purchase volumes with manufacturers to facilitate rebate calculations when requested by customers.⁵³

- 2.45 Wholesalers typically hold a wide range of veterinary medicines in stock, enabling customers to access a variety of products that can be easily delivered to them when needed. Product range is therefore an important factor when customers choose a wholesaler. One told us that it seeks to offer all medicines that customers demand.⁵⁴ Another [redacted] said that, as stocking a full range of products was the expectation of customers, customers would switch to an alternative wholesaler for all their veterinary medicines if they did not do this.⁵⁵ A wholesaler [redacted] told us that maintaining a diverse range of products was essential for their customers.⁵⁶ As a result, FOPs can choose between or switch wholesalers without having to change their chosen manufacturer because wholesalers stock and distribute all common veterinary medicines on behalf of a range of manufacturers.
- 2.46 Those manufacturers who largely rely on wholesalers to distribute their products believe the use of wholesalers was more efficient for FOPs and third-party retailers. In particular, one [redacted] told us the wholesale route was popular for FOPs, likely due to the convenience that wholesalers can provide through daily deliveries and the ranges of products from different manufacturers.⁵⁷
- 2.47 As set out above, manufacturers set the list price of veterinary medicines. Wholesalers obtain a discount (but not rebates) on this list price when purchasing medicines from manufacturers. One wholesaler [redacted] and two manufacturers [redacted], [redacted] told us that this discount is typically a fixed 15% on the list price set by manufacturers.⁵⁸
- 2.48 We understand that wholesalers pass on the majority of their discount from manufacturers to their customers. For example, one wholesaler [redacted] told us that it passes on between 12% and 14% of its discounts on manufacturers' list prices.⁵⁹
- 2.49 While the discounts from wholesalers available to FOPs and third-party retailers do reduce the price they pay for veterinary medicines, it is the rebates agreed with manufacturers that have the largest direct impact on the purchase costs of FOPs and third-party retailers with material volumes of sales. For example, the average wholesale discount on manufacturer list prices obtained by LVGs is between [5-

⁵³ Wholesaler response to RF11, Q1(b) [redacted].

⁵⁴ Wholesaler response to RF11, Q3 [redacted].

⁵⁵ Wholesaler response to RF11, Q3 [redacted].

⁵⁶ Wholesaler response to RF11, Q1(c) [redacted].

⁵⁷ Medicine Manufacturer response to RF11, Q2(a) [redacted].

⁵⁸ Wholesaler responses to RF11, Q4(a) and Medicine Manufacturer response to RF11, Q2(c) [redacted]. One other manufacturer [redacted] [redacted]. See: Manufacturer response to RF11, Q2(c) [redacted].

⁵⁹ Wholesaler response to RF11, Q6 [redacted].

10%] [redacted] and [10-20%] [redacted].⁶⁰ In contrast, the average manufacturer rebates on list prices reported by LVGs were between [20-30%] [redacted] and [50-60%] [redacted].⁶¹ The purchase costs of FOPs are considered in the **Outcomes of competition** and **Negotiation power and its consequences for competition** sections below.

Some manufacturers use direct distribution rather than wholesalers

- 2.50 Alternatively, manufacturers can distribute veterinary medicines directly to customers. We understand that at least one manufacturer [redacted] only supplies FOPs and retailers using direct distribution, with two others [redacted], [redacted] supplying some large customers directly rather than through wholesalers.⁶²
- 2.51 Manufacturers have direct supply relationships with their customers in this model, although they may use wholesaler logistics for distribution.⁶³ One wholesaler [redacted] explained that, as it acts as third-party logistics provider for manufacturers, it processes orders and delivers these to customers that have direct supply relationships with manufacturers.⁶⁴ Customers are invoiced by manufacturers and may pay a fee for distribution services provided by the wholesaler.⁶⁵
- 2.52 The manufacturers that use this model told us that their customers benefit from this supply arrangement. One [redacted] explained that applying all discounts ‘on-invoice’ increases certainty and transparency of pricing for customers.⁶⁶ Another [redacted] told us that the aim of customers purchasing directly from manufacturers was typically to lower purchase prices by removing wholesalers from the supply chain, although this may come at the expense of increased distribution costs for customers as a result of not using wholesalers.⁶⁷
- 2.53 Another manufacturer [redacted] considered that the use of direct distribution by other manufacturers was leading to increasing concentration in the wholesaler market.⁶⁸ This manufacturer told us that FOPs prefer to order from one selected wholesaler for efficiency and convenience. This has had the effect of some FOPs switching to use the wholesalers that provide the logistics for the manufacturers operating the direct distribution model. Consistent with this, one LVG [redacted] [redacted].⁶⁹

⁶⁰ LVG responses to RF12, Q14, 16. [redacted]. We note that the information provided by one LVG [redacted] reflected the average discount from one of their wholesalers rather than the average discount on purchases from all wholesalers.

⁶¹ LVG responses to RF11, Q14, 16 [redacted].

⁶² Medicine Manufacturer responses to RF11, Q1(a) [redacted].

⁶³ Medicine Manufacturer response to RF11, Q2(a) [redacted].

⁶⁴ Wholesaler response to RF11, Q1(a) [redacted].

⁶⁵ Wholesaler response to RF11, Q1(a) [redacted].

⁶⁶ Medicine Manufacturer response to RF11, Q2(c) [redacted].

⁶⁷ Medicine Manufacturer response to RF11, Q2(a) [redacted].

⁶⁸ Medicine Manufacturer response to RF11, Q9(b) [redacted].

⁶⁹ LVG response to RF111, Q14 [redacted].

Retail of veterinary medicines to pet owners

- 2.54 As set out above, a vet may use a veterinary medicine whilst directly treating a pet, such as when administering an anaesthetic used in a clinical procedure. Veterinary medicines may also be prescribed by a vet for treatment outside the FOP, for example a course of medication to treat a chronic condition or eye drops to be administered by pet owners.
- 2.55 Of the [pet owners that responded to our survey](#), 65% said that their pet was prescribed a medication in the last two years.⁷⁰ Of this group, 60% said they received a one-off prescription while 39% said they had repeat prescriptions.⁷¹ Of respondents with on-going medications, the most typical paying frequencies were: monthly (38%), every three months (26%), and every six months (17%).⁷²
- 2.56 While only veterinary surgeons can prescribe certain veterinary medicines (POM-Vs), pet owners have a choice of where to purchase the prescribed medication. They may choose to buy veterinary medicines directly from their FOP. Alternatively, a pet owner can choose to buy medication from third-party retailers, in particular online pharmacies, with a written prescription from a vet. Other veterinary medicines, for example over the counter preventative treatments for fleas, can be bought by pet owners from third-party retailers without a written prescription.
- 2.57 This sub-section is structured as follows:
- (a) We define the ‘gatekeeper’ role played by vets within a FOP that gives them the ability to steer the choices of pet owners.
 - (b) We provide an overview of the medicines available to pet owners at FOPs and the reasons why some products are prescribed to some pet owners at some FOPs but not at others.
 - (c) We describe the fees charged by FOPs for veterinary medicines, in particular fees for medication dispensed by a FOP and fees charged for the provision of a written prescription by a vet.
 - (d) We provide an overview of the main third-party retailers available to pet owners when purchasing medication: online pharmacies.

⁷⁰ Pet owners survey, Q90b.

⁷¹ Pet owners survey, Q92.

⁷² Pet owners survey, Q93.

Vets within FOPs hold a ‘gatekeeper’ role

- 2.58 Vets play a role in the purchase of certain veterinary medicines regardless of whether or not the pet owner ultimately purchases a product from that vet. As set out above, this is because pet owners must first obtain a written prescription from a vet before they are able to buy most veterinary medicines from a third-party retailer, such as an online pharmacy.
- 2.59 Individual vets primarily recommend medicines to pet owners based on their pet’s clinical need, although vets may also consider the circumstances of the pet and the pet owner when making these recommendations. Pet owners may decide between different options presented by vets but do not have the ability to independently choose between different medicines.⁷³ Instead, pet owners decide whether to accept their vet’s recommendation to use a particular medicine and, if so, whether to purchase the medicine from a FOP or a third-party retailer.
- 2.60 The strict regulation around written prescriptions means that, regardless of where the pet owner intends to purchase the medicine, the prescribing decision of the vet during a consultation is the critical point at which the choice of veterinary medicine available to that pet owner is determined. Where these veterinary medicines are dispensed by a third-party retailer, rather than a veterinary surgeon, the product provided to pet owners must match the medication on the written prescription (unless the written prescription is specified widely, for example a prescription by active ingredient rather than product).⁷⁴
- 2.61 We consider that vets’ role as ‘gatekeeper’ for veterinary medicines is an example of pet owners’ need to rely on veterinary experts, which is explored further in the working paper on **How People Purchase Veterinary Services**.

The range of medicines retailed in FOPs depends on stocking issues and procurement decisions

- 2.62 The veterinary medicines recommended to pet owners and available to purchase at a given FOP may be influenced by a range of factors.
- 2.63 In our qualitative research with vets and vet nurses, some veterinary professionals told us that stock availability was a key consideration for their medication recommendations. There is often no choice due to inventory constraints, with

⁷³ For example, see: LVG responses to RF111, Q18 [☒]; Qualitative research, page 23.

⁷⁴ We note that the VMD neither encourages nor discourages prescribing via active substance, but it suggests caution when doing so as not all drugs of the same active ingredient are clinically interchangeable [☒].

many FOPs only offering a single brand per medication to simplify inventory management.⁷⁵

- 2.64 Other vets and vet nurses in our qualitative research told us that when options are available, they consider the circumstances of the pet and owner when making medication recommendations. For example, the ability of a pet owner to administer the medication themselves was considered when determining the format of medication to prescribe.⁷⁶ The financial situation of the pet owner was also considered, with vets adapting their recommendations based on their understanding of what the pet owner could afford or was willing to pay.⁷⁷ In particular, we heard that some offer a written prescription for the pet owner to get the medication online where it might be cheaper for them.⁷⁸
- 2.65 We have found that the veterinary medicines available to purchase at a given FOP may be influenced by certain medicines being identified as a ‘preferred’ or ‘recommended’ product (taken together, we define these as **Preferred Products**), as selected through the procurement processes of LVGs and buying groups.
- (a) Three LVGs [redacted], [redacted], [redacted] said that ‘preferred’ products for certain veterinary medicines are selected during the procurement process.⁷⁹
 - (b) One of these LVGs [redacted] told us that its Preferred Products represent the most clinically suitable (as the primary consideration) and commercially viable (as a secondary consideration) pharmaceutical options.⁸⁰
 - (c) Another LVG [redacted] provides a short list of ‘preferred products’ (based on the clinical board’s review of the product’s clinical attributes) for its FOPs to consider when choosing which veterinary medicines to procure.⁸¹
 - (d) One other LVG [redacted] told us that, as an endpoint following negotiations with veterinary medicines manufacturers, they select ‘recommended products’.⁸² FOPs owned by the LVG are then informed about these ‘recommended products’ and of the available terms.
 - (e) Two LVGs – CVS and IVC – have Own Brand products (as discussed above), which they include in their ‘preferred’ product list of veterinary medicines.⁸³ These products are available only from FOPs owned by the

⁷⁵ Qualitative research with veterinary professionals, Revealing Reality research report, page 23.

⁷⁶ Qualitative research with veterinary professionals, Revealing Reality research report, page 24.

⁷⁷ Qualitative research with veterinary professionals, page 33.

⁷⁸ Qualitative research with veterinary professionals, page 31.

⁷⁹ LVGs responses to RF13, Q21,49.

⁸⁰ LVG response to RF13, Q49 [redacted].

⁸¹ LVG response to RF13 Q27, 51[redacted].

⁸² LVG response to RF13, Q49 [redacted].

⁸³ LVG responses to RF111 Q26(a), 26(b) [redacted].

relevant LVG or, in the case of CVS, independent FOPs who are members of CVS buying groups.⁸⁴

- (f) Our qualitative research found that many independent FOPs were part of buying groups that purchased Preferred Products, which affected the medications they could order in or had in stock.
- (g) In a roundtable discussion with veterinary professionals, some vets told us that they experienced limitations on the medication they could prescribe as these were not a Preferred Product at their FOPs.⁸⁵
- (h) Some buying groups contacted as part of this investigation said that they do indicate a 'preferred product' or a 'preferred supplier' that their FOP members are encouraged to use before considering alternatives.⁸⁶

2.66 We understand that Preferred Products are selected only where more than one manufacturer offers veterinary medicines that are clinically equivalent. This equivalence could be based on the active ingredients of products,⁸⁷ based on a clinical assessment used to evaluate the similarity between medicines as part of the procurement process,⁸⁸ and/or decided with reference to the position of medication on the Cascade.⁸⁹

2.67 All LVGs and a number of independent FOPs told us that the selection of Preferred Products does not prevent alternatives being prescribed by vets within a FOP based on their clinical judgement.⁹⁰

2.68 Where these Preferred Products are used, they are typically prescribed to pet owners and are the products available to purchase at a given FOP. In our qualitative research, most veterinary surgeons reported that they were able to order 'off-list' if there was a clinical reason to do so, though friction was sometimes experienced in doing this.⁹¹

- (a) A majority of those interviewed from four LVGs [REDACTED], [REDACTED], [REDACTED], [REDACTED] reported needing approval to prescribe or order medications that were 'off-list'. Often, this process involved obtaining approval from senior management, which in some cases required navigating multiple layers of oversight.

⁸⁴LVG responses to RF11 Q26(a), 26(b) [REDACTED]; and [About MiPet](#) retrieved 22 November 2024.

⁸⁵ [Manchester roundtable summary](#), page 3.

⁸⁶ Buying Groups response to RF11 Q7 [REDACTED].

⁸⁷ LVG response to RF12, Q15 [REDACTED] and Buying Group response to RF11, [REDACTED].

⁸⁸ LVG responses to RF13, Q51(a) [REDACTED] and Buying Group response to RF11, Q9 [REDACTED].

⁸⁹ Buying group response to RF1 [REDACTED] and LVG response to RF11 [REDACTED].

⁹⁰ LVG response to RF12, Q19, 21 [REDACTED] and Independent responses to RF11, Q17 [REDACTED].

⁹¹ Qualitative research with veterinary professionals, pages 27 to 28.

- (b) The majority of those interviewed from one LVG [redacted] reported that it was difficult to get approval, while only a minority of those at some LVGs [redacted], [redacted], [redacted] reported this. Some vets at two LVGs [redacted], [redacted] reported that they have complete discretion to prescribe or order in medication.
- (c) A few veterinary surgeons at both LVGs and independent practices noted that waiting for such approval could cause delays, which was not always feasible when time constraints required prompt administration of a medication. A few veterinary surgeons reported needing to justify why they had ordered in or prescribed a non-preferred medication.
- (d) Most of the veterinary surgeons who worked at independent FOPs described how the buying group of which they are a member would determine which brands were in stock, or 'preferential' to prescribe. However, many working at independent FOPs reported having complete discretion to prescribe or easily being able to gain approval to order in the necessary medication.

2.69 Consistent with our qualitative research, some LVGs told us that they put additional measures in place to monitor the use of Preferred Products in their FOPs.

- (a) One LVG [redacted] told us that its list of 'preferred' products was intended to be comprehensive, but if a FOP wished to place an order for a medication not included on its list of 'preferred' products then it was able to go through an [redacted] for its request.⁹²
- (b) Another LVG [redacted] said they expect approximately [redacted] take up on newly selected Preferred Products and communicate these expected volumes to suppliers.⁹³ This LVG also told us its FOPs must have a reason to deviate from these Preferred Products, such as a specific client preferring an alternative.

2.70 The impact of Own Brand products being designated as a Preferred Product is explored further in the **Competition between FOPs and third-party retailers** section below.

FOPs charge a range of fees in relation to veterinary medicines

2.71 When pet owners purchase veterinary medicines from a FOP, there will typically be fees associated with the purchase. This can include fees for when a vet administers an injection, dispensing fees when a FOP is supplying medication for

⁹² LVG response to RFI11, Q13 [redacted].

⁹³ LVG response to RFI3, Q27 [redacted].

the pet owner to take home with them, and fees for written prescriptions when a pet owner wishes to purchase veterinary medicines from a third-party retailer.

2.72 These fees cover various costs faced by FOPs in relation to veterinary medicines. For example, these costs may include a veterinary surgeon's time to prepare a written prescription, labels and packaging for medication that is dispensed to pet owners, as well as storage and wastage costs associated with injectable medicines.⁹⁴

2.73 The incidence of fees charged will also vary depending on how often the pet owner needs to return to the FOP. This in turn may depend on the clinical condition the medicine is being dispensed, prescribed or administered to treat, as well as the period the quantity of medicine involved at each dispensing, prescription, or administration instance will cover.

2.74 Revenue from injection and dispensing fees represented between 5% and 20% of revenues earned by LVGs.⁹⁵ By contrast, average revenues from injection and dispensing fees represented less than 5% of revenues earned by independent FOPs.⁹⁶

2.75 Evidence we have seen to date suggests that the level of injection fees is varied. For example:

- (a) Evidence submitted from a sample of 22 small and medium sized vet chains showed injection fees ranging from £0 to £15.⁹⁷
- (b) Analysis using data from around 120 independent FOPs obtained through [redacted] shows that their average injection fee in 2023 was between [£10 and £20].⁹⁸
- (c) Data submitted from LVGs indicated that the weighted average for injection fees ranged from £10 [redacted] [redacted] to £30 [redacted] [redacted].⁹⁹
- (d) This same data from LVGs also showed that the maximum fees for some standard injections were over £50 at some LVGs [redacted], [redacted], [redacted].¹⁰⁰

⁹⁴ LVG response to RF11, Q16 and Independent responses to RF11, Q21 [redacted].

⁹⁵ CMA analysis of data provided by LVGs [redacted].

⁹⁶ CMA analysis of [redacted] data. [redacted] provided analysis which showed that the average injection fee in 2023 was [redacted] once observations for multiple injection fees, refunded injection fees, and injection 'procedures' were excluded. We note that this estimate still falls in the range of between £10 and £20.

⁹⁷ Independent responses to RF11, Q21 [redacted].

⁹⁸ CMA analysis of [redacted] data.

⁹⁹ CMA analysis of data provided by LVGs ([redacted]). Note that the data submitted by LVGs was not always a complete sample of every FOP they oversee. Some fees included in the data are for more complicated procedures such as intra-articular injections which are vastly more expensive than the average injection fee.

¹⁰⁰ CMA analysis of data provided by LVGs ([redacted]).

- 2.76 The available evidence shows that there is a wide range of dispensing fees charged by FOPs and that it may vary depending on the medication that has been prescribed by vets. For example:
- (a) One LVG [redacted] submitted that it sets its dispensing fees centrally. These are between [£10 and £20] for tablets and [less than £10] for packaged items.¹⁰¹
 - (b) Data submitted from LVGs indicated that the weighted average of dispensing fees ranged from [less than £10 to £20] [redacted] [redacted] [redacted].¹⁰²
 - (c) The same LVG data showed that dispensing fees can range from [£0 to more than £100] [redacted] for certain special cases where safe handling is required for the medicine being dispensed.¹⁰³
 - (d) Analysis using data from around 120 independent FOPs obtained through [redacted] showed that their average dispensing fee in 2023 was less than £10 [redacted].¹⁰⁴
 - (e) Some independent FOPs told us that their dispensing fees range from £0 to just over £13 and that the dispensing fee can vary depending on the time taken to dispense the medicine.¹⁰⁵
- 2.77 The available evidence also shows that there is a wide range of fees for the provision of written prescriptions charged by FOPs. For example:
- (a) In our qualitative research, vets and vet nurses reported prescription fees in a range of £12 to £36, with no overall differences found in the fees charged by LVG and independent FOPs.¹⁰⁶
 - (b) One LVG [redacted] submitted that its prescription charge was set centrally for small animal practices, and this was between £10 and £20 [redacted].¹⁰⁷
 - (c) Another LVG [redacted] told us that, although its prescription fees are set centrally, these are set following a local benchmarking process and also consider historic levels of prescription fees at its FOPs.¹⁰⁸
 - (d) Other LVGs submitted that prescription fees were set locally.¹⁰⁹ One [redacted] submitted the median price for a written prescription across its practices was

¹⁰¹ LVG response to RF11, Q18 [redacted].

¹⁰² CMA analysis of data provided by LVGs ([redacted]).

¹⁰³ CMA analysis of data provided by LVGs ([redacted]).

¹⁰⁴ CMA analysis of [redacted] data.

¹⁰⁵ Independent vet practice responses to RF1 [redacted].

¹⁰⁶ Qualitative research with veterinary professionals, page 29 to 30.

¹⁰⁷ LVG response to RF11 Q30 [redacted].

¹⁰⁸ LVG response to RF11, Q30 [redacted].

¹⁰⁹ LVG responses to RF11, Q30 [redacted].

between £20 and £30 [REDACTED].¹¹⁰ Another [REDACTED] submitted that its median written prescription price was between £10 and £20 [REDACTED].¹¹¹ One other [REDACTED] submitted that its weighted average fee was between £10 and £20 [REDACTED] across a data sample of 78 small animal practices.¹¹²

- (e) [REDACTED] data from around 120 independent FOPs showed that the average prescription fee across these practices was between £10 and £20 [REDACTED].¹¹³
- (f) Data from the SPVS fees survey states that the median price nationally for a written prescription to a small animal was £17.96 in 2023 and £15 in 2022.¹¹⁴

Online pharmacies are the main alternative to FOPs for veterinary medicines

- 2.78 The main alternative to FOPs when pet owners wish to purchase veterinary medicines is online pharmacies. Although we understand that it may be possible to purchase some medication for animals from ‘bricks and mortar’ pharmacies, we have not seen evidence to suggest that this is a material sales channel for veterinary medicines.
- 2.79 The VMRs provide that pharmacists may supply veterinary medicines from premises registered with the General Pharmaceutical Council, Pharmaceutical Society of Northern Ireland (in Northern Ireland), or from a veterinary surgeon’s premises registered with the RCVS for supply of veterinary medicines.¹¹⁵ Consequently, the supply of veterinary medicines is not restricted to specialist veterinary pharmacies.
- 2.80 Four online pharmacies in the UK are owned and operated by three LVGs: CVS is in the same group as Animed Direct, IVC is in the same group as Pet Drugs Online (**PDOL**), VetPartners is in the same group as 365Vet and VetUK.¹¹⁶ Several other online pharmacies active in the UK are not part of groups that own FOPs.¹¹⁷
- 2.81 We have also seen evidence that another LVG [REDACTED] has considered launching or purchasing an online pharmacy, in part as a response to the ownership of online pharmacies by other LVGs.¹¹⁸

¹¹⁰ LVG response to RFI1, Q30 [REDACTED].

¹¹¹ LVG response to RFI1, Q30 [REDACTED].

¹¹² LVG response to RFI1, Q30 [REDACTED].

¹¹³ CMA analysis of [REDACTED] data.

¹¹⁴ [SPVS Fees Survey 2023](#) (accessible to full members only).

¹¹⁵ [VMRs](#) schedule 3 paragraph 10.

¹¹⁶ Online Pharmacies responses to RFI1 Q4(a), [REDACTED].

¹¹⁷ Online Pharmacies responses to RFI1, Q4, 4(a) [REDACTED].

¹¹⁸ LVG response to RFI3, Q53 [REDACTED].

Online pharmacies are not able to influence pet owners' choice of veterinary medicines

- 2.82 Online pharmacies dispense and deliver veterinary medicines to pet owners, including those that require a written prescription to be provided by a vet (POM-Vs) as well as those that can be purchased over the counter without a written prescription. If a written prescription is required, a pet owner can provide a copy of the prescription for a pharmacist to check before dispensing the medication by uploading this through the online pharmacy's website or app.
- 2.83 The range of medication offered by online pharmacies differs from that available to pet owners at a FOP. As online pharmacies are unable to influence the choice of veterinary medicines prescribed by vets, nor are they able to direct them towards certain Preferred Products, we understand that online pharmacies typically hold a wide range of medications that can be used to treat the same condition.¹¹⁹
- 2.84 Online pharmacies may focus their offerings on veterinary medicines for the most common conditions treated by vets or those that pet owners may be more willing to consider purchasing outside a FOP rather than stock the full range of veterinary medicines available on the market. This contrasts with FOPs, which typically hold the range of veterinary medicines needed to treat most health conditions that pets could be expected to present to a vet. The costs of storing these products, and the loss of medicines through wastage, are typically greater in FOPs than in online pharmacies.

Summary of nature of competition

- 2.85 This section set out our current understanding of the nature of competition in the supply of veterinary medicines.
- 2.86 We described how the veterinary medicines industry operates, the manufacture and distribution of veterinary medicines to FOPs and retailers, and the options available to pet owners when purchasing medication for their pet. We also set out the main competitive dynamics that influence the supply of veterinary medicines in the UK. In summary:
- (a) Veterinary medicines are highly regulated goods that may be used by a vet while directly treating a pet or may be prescribed by a vet for treatment beyond the practice. Only veterinary surgeons can prescribe certain

¹¹⁹ We note that, as Own Brand products are only available from FOPs owned by the relevant LVG or, in the case of CVS, independent FOPs who are members of CVS buying groups, this means that these LVGs do not sell their Own Brand products at their company-owned online pharmacies. See: LVG responses to RF111, Q26(a), 26(b), 26(f) [§] and [About MiPet](#) retrieved 22 November 2024. One of these LVGs [§] noted that it does not sell its Own Brand products at its online pharmacy [§].

veterinary medicines (POM-Vs), although pet owners are also able to buy veterinary medicines directly from third-party retailers, such as online pharmacies, with a written prescription from a vet.

- (b) Manufacturers set list prices for veterinary medicines that reflect the alternatives available on the market as well as the strength of competition between manufacturers for certain products. Recently Own Brand products have been introduced by CVS and IVC, who are the sole retailers and/or distributors of these veterinary medicines.
- (c) Independent FOPs and online pharmacies have joined or formed buying groups to strengthen their negotiating position with manufacturers. The purpose of buying groups is to use the collective buying power of their members to negotiate and obtain larger volume rebates with manufacturers than would be available to individual members acting alone.
- (d) Most manufacturers distribute veterinary medicines either through supplying wholesalers, who intermediate between manufacturers and their customers, or by directly supplying FOPs and third-party retailers. Wholesalers purchase veterinary medicines in bulk directly from manufacturers, typically at a 15% discount on list prices, and hold a wide range to enable customers to access a variety of products that can be easily delivered to them when needed.
- (e) Regardless of where a pet owner ultimately purchases a veterinary medicine prescribed by a vet, the strict regulation around written prescriptions means that the prescribing decision of the vet during a consultation is the critical point at which the choice of veterinary medicine available to that pet owner is decided. We consider that this is part of the 'gatekeeper' role held by vets.
- (f) Veterinary medicines available to purchase at a given FOP may be influenced by the selection of Preferred Products by LVGs and buying groups. The selection of Preferred Products does not prevent alternatives being prescribed by vets within a FOP based on their clinical judgment. Although, where stipulated, Preferred Products are typically prescribed to pet owners in practice and are the products available to purchase at a given FOP.
- (g) In contrast to vets in FOPs, online pharmacies are unable to influence the choice of veterinary medicines prescribed by vets, nor are they able to direct pet owners towards certain products as what is dispensed must match the medication specified on the written prescription. This means that online pharmacies typically have a wider range of medications available to pet owners and may hold in stock several alternatives that can be used to treat the same condition.

2.87 These factors are relevant for our emerging thinking on **Competition between FOPs, Competition between FOPs and third-party retailers, and Negotiating power and its consequences for competition**. These are assessed in later sections of this working paper.

3. Outcomes of competition

- 3.1 When considering the market features that may be preventing, restricting, or distorting competition within the supply of veterinary medicines, we are informed by the available evidence on the outcomes of the competitive process.¹²⁰
- 3.2 We have focused on prices and profitability as the key outcomes of the competitive process at the retail level. This is because retail prices and purchase costs are among the more observable and measurable outcomes in the supply of veterinary medicines. While other, less-quantifiable outcomes (such as those relating to quality and innovation) may also reflect relevant parameters of competition, these are more likely to be driven by the actions of manufacturers than those of FOPs and third-party retailers. Understanding these outcomes of competition is beyond the scope of our current working paper, which is focused on the retail of veterinary medicines to pet owners.
- 3.3 Evaluating these outcomes helps to determine whether there is an AEC (that is, the ‘diagnosis’ of any features or combination of features that restricts or distorts competition in the supply of veterinary medicines) and, if so, the extent to which customers may be harmed by it (that is, the degree and nature of ‘customer detriment’).
- 3.4 We note that prices and profitability are indicators of competition, not features of the market. While useful, findings that price-cost margins are wide or profitability is high in a market do not on their own provide conclusive evidence that the market could be more competitive, in the absence of an identified feature of the market giving rise to an AEC.
- 3.5 This section is structured as follows:
- (a) We describe the interactions between retail prices, purchase costs, and profitability based on our understanding of the main competitive dynamics that influence the supply of veterinary medicines in the UK (as set out in the **Nature of competition** section above).
 - (b) We set out the trends in retail prices for veterinary medicines available at FOPs, both in relation to the average unit costs for medicines [✂].
 - (c) We provide an overview of the prices and profitability of veterinary medicines at LVGs, in particular the mark-ups they apply when setting retail prices and the importance to their businesses of the sale of medicines.

¹²⁰ CC3, paragraph 97.

- (d) We provide an overview of the prices and profitability of veterinary medicines at independent FOPs, in particular the mark-ups they apply when setting retail prices and the extent to which online pharmacies are currently constraining their prices.
- (e) We summarise the available evidence on the prices and profitability of veterinary medicines at online pharmacies, in particular the mark-ups they apply when setting retail prices and cost savings available to pet owners when purchasing medication through these third-party retailers.

Interaction between retail prices, purchase costs, and profitability

3.6 To evaluate prices and profitability of veterinary medicines, it is important to set out our understanding of how purchase costs and retail prices for veterinary medicines sold as distinct products are determined.

3.7 There are three main components to calculating purchase costs of veterinary medicines.

- (a) **Manufacturer list price:** Manufacturers set a list price for their veterinary medicines, which is the retail price suggested by manufacturers. This price is consistent across all buyers and is used as a reference point in negotiations.
- (b) **Wholesaler discount:** When purchasing medicines from manufacturers, wholesalers receive a discount on manufacturer list price. When FOPs and third-party retailers purchase medicines from a wholesaler, they can negotiate with them to receive a share of the wholesaler's discount.
- (c) **Manufacturer rebate:** Manufacturers may also offer a percentage discount to FOPs and third-party retailers on their list prices in the form of a rebate. The rebates agreed with manufacturers have the largest direct impact on the purchase costs of FOPs and third-party retailers with material volumes of sales.

3.8 The purchase costs of FOPs and third-party retailers is therefore manufacturer list price less wholesaler discount and manufacturer rebate (sometimes referred to as the 'net net' cost or 'net net' price by market participants). This is shown in Figure 3.1 below.

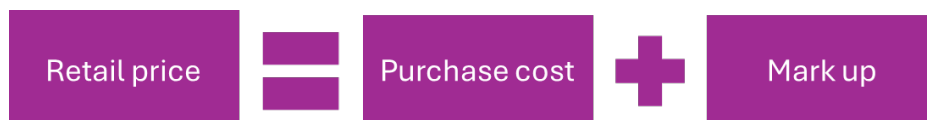
Figure 3.1: The determination of veterinary medicine purchase costs



Source: CMA analysis

3.9 When setting retail prices, FOPs and third-party retailers could be considered as applying a mark-up to their purchase costs. This is shown in Figure 3.2 below.

Figure 3.2: The determination of veterinary medicine retail prices



Source: CMA analysis

3.10 Although there is variation in the benchmark used by LVGs, independent FOPs, and online pharmacies when setting retail prices (as set out below), we consider that the mark-up most relevant for our understanding of profitability in the supply of veterinary medicines sold as distinct products to pet owners to be the difference between retail price and purchase cost (as defined in Figure 3.1). This mark-up can be expressed as the gross mark-up on the sale of veterinary medicines as it only includes direct incremental costs of supply (that is, the purchase cost of medication) but not the indirect incremental costs of supply (such as time spent injecting or dispensing medicines, the staffing costs needed to provide medication to pet owners and storage and wastage costs).

3.11 We are also considering how best to estimate gross incremental profits (or, more concisely, gross 'contribution') arising from the retailing of medicines priced separately from other services. This includes revenues from the sale of medicines as well as revenues from the fees associated with the sale of medicines in FOPs (including, as set out in the **Nature of competition** section, administration and dispensing fees). These estimates are gross because they do not factor in indirect incremental costs and are a 'contribution' as they contribute to covering the other costs of a FOP. We view the sale of medicines as incremental to the core services offered by FOPs – that is, if there were no FOP there would be no retailing of medicines in this way.

Trends in retail prices at FOPs

3.12 In order to understand the trends in retail prices paid by pet owners at FOPs, we have analysed data on the unit prices of medicines included in the records of pet insurance claims. The data used in this analysis was obtained from [X], [X].

- 3.13 Our analysis of the average unit prices for medicines in the [redacted] data showed that they increased from [£20-30] in 2014 to [£30-40] in 2024, representing a [60-70%] increase in average unit medicine cost over this period.¹²¹ We note that the data for medicines does not report the prescribed quantities in a consistent way. Our analysis of unit prices for medicines is therefore contingent on there being no systematic variations in prescribed quantities across suppliers or over time. We have also received some submissions from the LVGs on our analysis of this data from insurers, which we have not been able to review in detail ahead of the publication of this paper. Certain LVGs have indicated that they disagree with this analysis, including identifying possible methodological errors and noting that there are significant market trends (including rising costs and increased service quality) which provide key context for the findings. Their submissions will be taken into further consideration in a subsequent paper which sets out our analysis in more detail. In the meantime, as with all our working papers, our analysis is provisional and subject to change as interested parties respond and our investigation continues.
- 3.14 By way of comparison, between January 2015 and December 2023, the ONS CPI for services grew by 35%,¹²² and the ONS estimate of average weekly earnings grew by 41%.¹²³ The increase in average unit prices for medicines in the [redacted] data is significantly greater than these measures of inflation over the same period.
- 3.15 [redacted]¹²⁴
- 3.16 [redacted]¹²⁵
- 3.17 [redacted]
- 3.18 When taken together, the available evidence appears to be consistent with there being limited competitive constraints on the retail prices FOPs set for veterinary medicines. [redacted]
- 3.19 [redacted]

Retail prices and profitability at LVGs

- 3.20 Most LVGs [redacted], [redacted], [redacted], [redacted], [redacted] allow individual FOPs to set their own retail price for veterinary medicines,¹²⁶ although some LVGs [redacted], [redacted], [redacted] provide

¹²¹ CMA analysis using [redacted] data.

¹²² Source: ONS, [CPI Index: services](#).

¹²³ Source: ONS, [Average weekly earnings in Great Britain: November 2024](#).

¹²⁴ CMA analysis.

¹²⁵ CMA analysis.

¹²⁶ LVG responses to RF11, Q10, 28 [redacted].

FOPs with guidance or recommendations on the mark-up they should apply when setting retail prices.¹²⁷

3.21 The approach to price-setting by FOPs that are part of LVGs is to apply a mark-up on the cost of purchasing medicines, although the reference cost used for this and the extent to which other factors – such as benchmarking and monitoring of competitors – are relevant appear to differ across LVGs.

- (a) Two LVGs [redacted], [redacted] told us that the ‘wholesale price’ is used as a reference when applying a mark-up to set retail prices.¹²⁸
- (b) Another LVG [redacted] [redacted].¹²⁹
- (c) One other LVG [redacted] said that their ‘supplier price’ is used as a reference when applying a mark-up to set retail prices.¹³⁰ [redacted].
- (d) Another LVG [redacted] told us that it sets retail prices for veterinary medicines by applying a mark-up to the ‘list price from [its] distributor’ to account for handling, stocking, and distribution costs.¹³¹ This LVG confirmed that the ‘list price from [its] distributor’ is typically the ‘wholesale price’.
- (e) One other LVG [redacted] determines mark-ups based on the type of medication and ensures recommended retail prices reflect its purchase costs of medicines, the prices for veterinary medicines available on the market, and to support profitability.¹³²

3.22 While LVGs told us that their FOPs typically set retail prices relative to the cost of purchasing medicines, we have observed that prices are substantially higher than the manufacturer list price (which, as explained in the **Nature of competition** section, is the retail price suggested by manufacturers for their products).

- (a) One [redacted] reported that its non-weighted average mark-up on manufacturer list prices is between [80-90%] and [90-100%].¹³³ This is based on the following: ‘the non-weighted median mark-up is [redacted] currently; the non-weighted mean mark-up is [redacted] currently, and the non-weighted mode mark-up is [redacted] currently’. Veterinary medicines sold as part of [redacted] pet care plan are excluded from these estimates.

¹²⁷ LVG responses to RF11, Q10, 28 [redacted].

¹²⁸ LVG responses to RF11, Q28 [redacted].

¹²⁹ LVG response to RF11, Q28 [redacted].

¹³⁰ LVG response to RF11, Q28 [redacted].

¹³¹ LVG response to RF11, Q10 [redacted].

¹³² LVG response to RF11, Q10 [redacted].

¹³³ LVG response to RF12, Q16 [redacted].

- (a) Another [redacted] reported its weighted average mark-up on manufacturer list prices was [60-70%].¹³⁴ This is based on the mark-ups on list prices for veterinary medicines for [redacted] small animal-only and mixed animal practices over the 12 months to November 2023 (which collectively represent 40% of all [redacted] small animal-only and mixed animal practices). This estimate includes veterinary medicines provided under a pet care plan.
- (b) One other [redacted] reported that its median mark-up was [90-100%] and that its non-weighted average mark-up on manufacturer list prices was [90-100%].¹³⁵ This 'mark-up differs depending on medication type and across practices (reflective of different cost structures for each practice).'
- (c) One [redacted] told us that its typical mark-up on manufacturer list prices was between [redacted] and [redacted], although the typical mark-up for antiparasitic medicines was [redacted].¹³⁶ The weighted average mark-up on list prices across clinics and medicines was [80-90%] in the four months to September 2023.
- (d) Another [redacted] reported that its average mark-up on manufacturer list prices for medication dispensed in a FOP was [90-100%]. The average mark-up on manufacturer list prices for injected medication was higher, at around [100-200%], given the additional wastage costs associated with injectables.¹³⁷
- (e) One other [redacted] told us that its weighted average mark-up on manufacturer list price was [50-60%] in the twelve months to October 2023.¹³⁸ This estimate 'does not include medicines provided under pet care plans.'

3.23 Evidence obtained from most LVGs show that they can each purchase medication significantly below the list price set by manufacturers given the discounts from wholesalers and rebates from manufacturers they can obtain.

- (a) One LVG [redacted] told us that their weighted average discount and rebate on manufacturer list price was [40-50%].¹³⁹
- (b) Another [redacted] told us their weighted average discount and rebate on manufacturer list price was [60-70%] for POM-V products.¹⁴⁰

¹³⁴ LVG response to RFI2, A15 [redacted]

¹³⁵ LVG response to RFI2, Q15 [redacted]

¹³⁶ LVG response to RFI2, Q17 [redacted]

¹³⁷ LVG response to RFI2, Q8 [redacted]

¹³⁸ LVG response to RFI2, Q15 [redacted]

¹³⁹ LVG response to RFI2, Q15 [redacted]

¹⁴⁰ LVG response to RFI2, Q16 [redacted]

- (c) One other [redacted] told us their weighted average discount and rebate on manufacturer list price was [60-70%].¹⁴¹
- (d) One [redacted] told us their total average discount and rebate on manufacturer list price was [50-60%].¹⁴²
- (e) Another LVG [redacted] had a lower weighted average discount and rebate of [30-40%].¹⁴³
- (f) One other LVG [redacted] was unable to provide its weighted average discount and rebate on manufacturer list price.

3.24 Combining the mark-up on manufacturer list price with the wholesale discount and manufacturer rebate on manufacturer list price obtained by these LVGs shows (as shown in Figure 3.1 and Figure 3.2 above) that they are, on average, selling medicines at retail prices that are between around four times ([redacted]) and around five times ([redacted]) their purchase costs. This is equivalent to an average mark-up on purchase costs of between 300% and 400%.¹⁴⁴ We note that, as the information provided by some LVGs only includes medication sold as distinct products whereas others have included medication sold as part of a bundled offering (such as vaccinations and pet plan products), we are unable to compare mark-ups on purchase costs on a like-for-like basis across these LVGs.

3.25 As set out above, LVG-owned FOPs earn revenues not only from the sale of veterinary medicines but also from fees associated with the retail of veterinary medicines (including administration and dispensing fees) that contribute to the cost of supplying medicines, and we intend to explore further the level of profits earned from the sale of veterinary medicines in due course. [redacted].

3.26 When taken together, this evidence suggests that the sale of medicines is an important source of profits to FOPs within LVGs. Although setting retail prices above incremental costs of supply also allows FOPs to recover some other costs which may contribute to the price of veterinary medicines when purchasing from a FOP, the evidence currently available to us does not suggest these other costs are likely to be responsible for what appears to be the premium pricing of veterinary

¹⁴¹ LVG response to RFI2, Q14 [redacted].

¹⁴² LVG response to RFI2, Q14 [redacted].

¹⁴³ LVG response to RFI2, Q14 [redacted].

¹⁴⁴ The mark-up on purchase costs is estimated as the difference between retail prices (as implied by the mark-up on manufacturer list price) and purchase costs (as implied by the wholesale discount and manufacturer rebate) expressed as a percentage of purchase costs.

medicines and related fees.¹⁴⁵ We intend to explore this further as part of our investigation.

3.27 The importance of medicine sales to the profitability of LVGs is reflected in internal documents we have obtained from some LVGs. These documents suggest the sale of medicines is a highly profitable activity for LVGs, that LVG-owned FOPs can set high retail prices when compared to online pharmacies, and that reducing price is unlikely to be profitable for these FOPs. For example:

- (a) One 2021 internal document from an LVG [REDACTED].¹⁴⁶
- (b) A 2023 internal document from the same LVG [REDACTED] stated that, [REDACTED].¹⁴⁷
- (c) One 2024 document from this LVG [REDACTED].¹⁴⁸
- (d) An internal document from another LVG [REDACTED] summarising the results of a pricing analysis reports that pet owners are not particularly price sensitive, that prices for selected flea and worm treatments could increase on average by [REDACTED], and the loss of sales volumes following a price increase could result in more profit for this LVG depending on the pricing policy introduced.¹⁴⁹
- (e) Market research set out in an internal document from one other LVG [REDACTED] showed that pet owners were able to save nearly [REDACTED] when buying flea and tick control online rather than from their vet.¹⁵⁰ This suggests that the retail prices for some medicines at this LVG – as well as other FOPs included in this research – can be maintained at a profitable level with little risk of losing material volumes of sales to online pharmacies.

3.28 We note that some of these documents suggest that pet owners may be more likely to use online pharmacies for some veterinary medicines that are more readily comparable between FOPs and third-party retailers. We explore this further in **Competition between FOPs and third-party retailers** below.

3.29 When taken together, this evidence on the retail prices set by LVGs is indicative of weak competition in the supply of veterinary medicines between FOPs as well as between FOPs and third-party retailers. It appears to us that the retail prices for medicines at LVGs are substantially above their costs of supply and LVG-owned

¹⁴⁵ These other costs may include indirect incremental costs related to the sale of veterinary medicines (such as time spent administering or dispensing medicines, the staffing costs needed to provide medication to pet owners, and storage and wastage costs) as well as the staffing costs needed to provide other services available at FOP, which may be reflecting in the retail prices for medicines rather than in other fees paid by pet owners.

¹⁴⁶ LVG response to RFI3, Q24 [REDACTED]

¹⁴⁷ LVG response to RFI3, Q24 [REDACTED]

¹⁴⁸ LVG response to RFI3, Q24 [REDACTED]

¹⁴⁹ LVG response to RFI3, Q18 [REDACTED]

¹⁵⁰ LVG response to RFI3 [REDACTED]

FOPs can maintain high prices for medication (and even raise prices) with little risk of losing material volumes of sales to other FOPs or third-party retailers. As a result, the sale of medicines is a highly profitable activity for FOPs within LVGs.

Retail prices and profitability at independent FOPs

3.30 Independent FOPs contacted as part of this investigation cited a broadly similar range of mark-ups to each other and to LVGs when setting retail prices. For example:

- (a) [REDACTED]¹⁵¹
- (b) One independent vet [REDACTED] said it applied a standard 50% mark-up on 'wholesaler list prices' for medication unless it was an essential product that might expire before being used, in which case a higher mark-up was necessitated.¹⁵²
- (c) A small FOP group [REDACTED] said it applied between a 75% and 100% mark-up on manufacturer list prices for injectables, between 30% and 100% on other POM-Vs, although only antibiotics had a 100% mark-up to try to deter their use.¹⁵³
- (d) Another small FOP group [REDACTED] said that medications generally needed immediately and used for short term courses (for example antibiotics) had a higher mark-up on manufacturer list prices (maximum of 80%) applied than medications for chronic use.¹⁵⁴
- (e) One medium sized FOP group [REDACTED] reported that it applied a mark-up on manufacturer list prices of 100% for topical medication, between 60% and 100% for 'general products', and between 60% and 75% flea and worm treatments.¹⁵⁵

3.31 Some independent FOPs told us that they applied a lower mark-up on veterinary medicines that pet owners may be more likely to purchase online. For example:

- (a) One independent vet [REDACTED] said it applied a mark-up of between 25% and 40% for medication to treat chronic conditions to remain comparable to online

¹⁵¹ Independent response to RF11, Q15 [REDACTED].

¹⁵² Independent response to RF11, Q15 [REDACTED].

¹⁵³ Independent response to RF11, Q21 [REDACTED].

¹⁵⁴ Independent response to RF11, Q21 [REDACTED].

¹⁵⁵ Independent response to RF11, Q21 [REDACTED].

retailers. In contrast, medication for acute conditions is marked up by 100%.¹⁵⁶

- (b) Another vet practice [redacted] submitted that chronic medications have lower mark ups and further discounts for purchasing large volumes.¹⁵⁷ This was in recognition that clients can source medication elsewhere, predominantly online.¹⁵⁸

3.32 This suggests that there may be a difference in the use of online pharmacies by pet owners for some veterinary medicines that are more readily comparable between FOPs and third-party retailers. We further explore this in the **Competition between FOPs and third-party retailers** section below.

3.33 We understand that independent FOPs can purchase medication below the list price set by manufacturers given the discounts from wholesalers and rebates from manufacturers they can obtain (as set out in Figure 3.1 above). As we set out in **Negotiating power and its consequences for competition** section below, the available evidence suggests that independent FOPs that join larger buying groups to strengthen their negotiating position could purchase veterinary medicines at a similar cost to those achieved by some LVGs. As such, the ‘true’ mark-ups on the purchase costs of medicines (as set out in Figure 3.2 above) can be expected to be significantly higher than the estimates obtained from independent FOPs set out above (which indicates that prices for medicines can be around twice their purchase costs – this is equivalent to a mark-up on purchase costs of 100%). This suggests that the sale of medicines is an important source of profits to independent FOPs, although we note that these mark-ups may cover the costs of retailing medicines faced by FOPs (as discussed above).

3.34 We have seen some evidence that the purchase costs of some FOPs and other online pharmacies may be greater than retail prices for the same veterinary medicine available from online pharmacies. For example:

- (a) One independent FOP [redacted] told us Advocate flea and tick treatment cost them 28% more to buy from a wholesaler than online pharmacies were selling it for.¹⁵⁹
- (b) Another independent FOP [redacted] submitted that the lowest price it can purchase 100 Apoquel tablets from its wholesaler is £91.88, while this product is sold by [redacted] online for £95.¹⁶⁰ This FOP told us it cannot list its

¹⁵⁶ Independent response to RF11, Q15 [redacted]

¹⁵⁷ Independent response to RF11, Q21 [redacted]

¹⁵⁸ Independent response to RF11, Q21 [redacted]

¹⁵⁹ Independent response to RF11, [redacted]

¹⁶⁰ Independent response to RF1, Q25 [redacted]

medicines at the same price as the online pharmacy without incurring a loss after costs and other overheads are considered.

- (c) Some vets told us in roundtable discussions that pet owners could obtain medicines at a lower price online than the cost of purchasing the same medicine from a wholesaler for a FOP.¹⁶¹

3.35 We note that these examples, as they refer to wholesale costs, may not include the manufacturer rebate independent FOPs would be able to obtain on the sale of these veterinary medicines, either when negotiating directly with the manufacturer or as a member of a buying group. As set out in the **Nature of competition** section, the rebates agreed with manufacturers have the largest direct impact on the purchase costs of FOPs and third-party retailers with material volumes of sales. We explore the manufacturer rebates that are available to independent FOPs as part of our assessment of **Negotiating power and its consequence for competition** below.

3.36 When taken together, this evidence suggests there may be weak competition in the supply of veterinary medicines between FOPs as well as between FOPs and third-party retailers. It appears to us that independent FOPs are able to set retail prices substantially above their costs of supply, although the mark-ups – at least at some FOPs – differ between those medicines that are more likely to be purchased by pet owners in FOPs and those that they may be more willing to purchase from third-party retailers.

Retail prices and profitability at online pharmacies

3.37 The typical approach to price setting by online pharmacies was to apply a mark-up on the cost of purchasing medicines, with the reference cost used for this mark-up and the extent to which other factors – such as benchmarking and monitoring of competitors – are relevant also appearing to differ across online pharmacies.

- (a) One LVG-owned online pharmacy [redacted] said it set retail prices based on a percentage mark-up of the 'wholesale price' along with other factors and told us that its prices might also fluctuate in line with market changes.¹⁶²
- (b) An LVG-owned online pharmacy business [redacted] told us that retail prices are set by applying a mark-up to 'net net prices' (that is, the purchase cost of the medicine when accounting for wholesaler discount and manufacturer rebate). The mark-up used is determined on an ad-hoc basis considering factors such

¹⁶¹ [Manchester roundtable summary](#), paragraph 9.

¹⁶² Online Pharmacy response to RF11, Q1(c) [redacted]

as commercial viability of the overall business, the competitive dynamics in the market, and online prices it monitors to ensure competitiveness.¹⁶³

- (c) Another LVG-owned online pharmacy [redacted] used manufacturer list prices as a reference when applying a mark-up for retail prices.¹⁶⁴ [redacted]
- (d) An independent online pharmacy [redacted] told us it set retail prices by carrying out regular informal reviews of its competitors in order to be the most cost-effective for pet owners.¹⁶⁵
- (e) One other independent online pharmacy [redacted] said its pricing is based on internal factors, including: cost price, gross product margin at a certain price, final gross margin (post payment, packaging and delivery), stock levels, promotions, expected and forecast sales volumes, and market prices.¹⁶⁶
- (f) Another independent online pharmacy [redacted] sets retail prices as 'cost price plus 20-30% (+VAT)' as well as considering prices available at its competitors. An additional mark-up is applied to refrigerated lines to cover costs of packaging and delivery.¹⁶⁷

3.38 The limited evidence currently available to us suggests that the pet owners purchasing from online pharmacies can make substantial savings and that there are concerns among some vets and some pet owners that on-going medication at FOPs are 'over-priced' relative to online pharmacies. For example:

- (a) One 2021 internal document from an LVG [redacted]¹⁶⁸ We understand that [redacted] given the content of this document.¹⁶⁹
- (b) Market research set out in an internal document from one other LVG [redacted] showed that pet owners were able to save nearly [redacted] when buying flea and tick control online rather than from their vet.¹⁷⁰
- (c) One pet owner submitted that the price of a flea infestation treatment (Advocate Spot On) was £49.22 from their local FOP but available from an online pharmacy for £14.99.¹⁷¹ These prices exclude the fee charged by that FOP for providing a written prescription.

¹⁶³ Online Pharmacy response to RF11, Q1(c) [redacted]

¹⁶⁴ Online Pharmacy response to RF11, Q1(c) [redacted]

¹⁶⁵ Online Pharmacy response to RF11, Q1(c) [redacted]

¹⁶⁶ Online Pharmacy response to RF11, Q1(c) [redacted]

¹⁶⁷ Online Pharmacy response to RF11, Q1(c) [redacted]

¹⁶⁸ LVG response to RF13, Q24 [redacted]

¹⁶⁹ LVG response to RF13, Q24 [redacted]

¹⁷⁰ LVG response to RF13 [redacted]

¹⁷¹ Correspondence from an individual pet owner

(d) Another pet owner submitted that the price per tablet of a worming treatment (Milbemax) was £11.21 when purchased directly from their FOP compared to £3.76 from an online pharmacy.¹⁷² These prices exclude the fee charged by that FOP for providing a written prescription.

3.39 When taken together, this suggests there are limited competitive constraints from online pharmacies on FOPs in the supply of veterinary medicines. We would not expect to observe such significant price differences if there were effective competition between FOPs and third-party retailers.

3.40 We understand that online pharmacies can typically supply veterinary medicines to pet owners at a lower cost than FOPs.¹⁷³ By focusing on the products pet owners are more likely to purchase online and by being able to attract a greater number of pet owners to their point of sale than can a single FOP, online pharmacies may have lower staffing, storage, and wastage costs than FOPs as well as the ability to spread those costs over a greater volume of sales. Online pharmacies may also be able to avoid some other costs which may contribute to the higher price of veterinary medicines faced by pet owners when purchasing from a FOP. These other costs may include the staffing costs needed to provide other services and products available at FOPs, which may be reflected in the retail prices for medicines rather than in other fees paid by pet owners.

Summary of outcomes of competition

3.41 This section sets out the available evidence on the outcomes of the competitive process.

3.42 Based on the evidence set out above, it appears that retail prices for veterinary medicines have been increasing in recent years, that the sale of veterinary medicines by FOPs is an important source of profit to these businesses, and that pet owners purchasing medicines from a FOP are likely to pay substantially more for a product than its purchase cost or the price offered by an online pharmacy for the same product. In particular:

(a) The trends in medicine retail prices at FOPs appear to be consistent with there being weak competition in relation to veterinary medicines. Our provisional analysis of the average unit prices for medicines showed that they have increased by [60-70%] between 2014 and 2024. This increase in

¹⁷² Correspondence from an individual pet owner

¹⁷³ See, for example: LVG response to RFI3, Q51 [☒]

average unit prices for medicines is significantly greater than comparable measures of cost inflation over the same period.¹⁷⁴

(b) [redacted].¹⁷⁵

(c) The level of retail prices set by FOPs appears to be consistent with the existence of weak competition in the supply of veterinary medicines. It appears to us that FOPs set retail prices that are substantially above their costs of supply (on average, between four and five times the purchase cost of medicines for some LVGs, and around twice the purchase costs of independent FOPs). The sale of veterinary medicines appears to be highly profitable or both LVG-owned and independent FOPs given the significant mark-ups they apply to the purchase costs of medicines when setting retail prices.

(d) The limited evidence available to date suggests that pet owners can make substantial cost savings when purchasing a product from online pharmacies compared with purchasing from a FOP. We would not expect to observe such significant price differences if there were effective competition between FOPs and third-party retailers.

3.43 While we plan to gather more evidence on prices and profitability, there appears to be important evidence of weaker competition between FOPs, and between FOPs and third-party retailers, than we would expect in a well-functioning market.

3.44 We have heard from some vets and vet businesses that revenues from the sale of veterinary medicines at FOPs allows them to keep prices lower for other veterinary services offered to pet owners. We are continuing our work on the profitability of LVG-owned and independent FOPs, and whether the levels of profitability achieved by LVGs are consistent with a well-functioning market.

¹⁷⁴ We note that we have received some submissions from the LVGs on our analysis of this data from insurers, which we have not been able to review in detail ahead of the publication of this paper. Certain LVGs have indicated that they disagree with this analysis, including identifying possible methodological errors and noting that there are significant market trends (including rising costs and increased service quality) which provide key context for the findings. Their submissions will be taken into further consideration in a subsequent paper which sets out our analysis in more detail. In the meantime, as with all our working papers, our analysis is provisional and subject to change as interested parties respond and our investigation continues.

¹⁷⁵ [redacted]

4. Competition between FOPs

- 4.1 The choice of FOP is typically the first key decision relating to veterinary care made by a pet owner.¹⁷⁶ When making this choice, pet owners also make secondary decisions about whether and how to seek information about their options – for example in relation to prices, services offered and quality.
- 4.2 Our survey of pet owners found that they are less likely to purchase certain veterinary medicines from third-party retailers.¹⁷⁷ This means the key decision point for pet owners relating to where to buy this medication is their choice of FOP. Similarly, while pet owners are inevitably not well placed – owing to the unpredictability involved – to consider the need for and price of medication to address all health concerns which may be experienced by their pet over its lifetime, pet owners might wish to consider the cost of accessing veterinary medicines when making their choice of FOP.
- 4.3 As set out in **Outcomes of competition**, we have concerns that the trend and level of retail prices set by FOPs is consistent with the existence of weak competition in the supply of veterinary medicines. It appears that FOPs set retail prices that are substantially above their costs of supply and that the sale of medicines is a highly profitable activity for FOPs.
- 4.4 In this section, we set out our current assessment of whether pet owners may be overpaying for veterinary medicines and associated fees. This may be because of difficulties they face in accessing and comparing prices of veterinary medicines and associated fees when choosing a FOP, as well as the corresponding limited competition between FOPs on the price of veterinary medicines and associated fees.
- 4.5 A strong response by pet owners to the competitive offerings of FOPs in relation to veterinary medicines and associated fees can act as a competitive constraint on FOPs, stimulating rivalry between them through informed decision-making by pet owners which rewards those FOPs that best satisfy pet owners' needs or preferences. In contrast, a weak response by pet owners to the competitive offerings of FOPs can be a source of competitive harm. Such a weak response by pet owners to the competitive offerings of FOPs may be caused by various factors,

¹⁷⁶ As set out in the working paper on **How People Purchase Veterinary Services**, evidence from our pet owners survey indicates that switching rates are relatively low. 3% of respondents indicated that they switched FOPs in the past year for reasons relating to the competitive offerings of FOPs, which we refer to as proactive switching as it excludes switching due to moving home or because their previous FOP had closed down (see: Pet owners survey, Q12A and Q33). We therefore focus on the initial choice of FOP by pet owners when assessing competition between FOPs in relation to the supply of veterinary medicines. Our emerging views on the consequences of limited proactive switching between FOPs by pet owners are set out in the working paper on **How People Purchase Veterinary Services**.

¹⁷⁷ Pet owners survey, Q99. This is explored further in the **Competition between FOPs and third-party retailers** section below.

such as the availability of information about the offers of FOPs in relation to veterinary medicines and associated fees and/or the difficulties pet owners face in effectively comparing offers across FOPs. This could result in pet owners paying more for veterinary medicines and associated fees over their pet's lifetime than they might if they had decided to choose an alternative FOP.

- 4.6 Any such weak response by pet owners to the competitive offerings of FOPs may limit competition between FOPs in relation to veterinary medicines and associated fees as they are not incentivised to compete on price. Where pet owners face significant impediments or costs in their search for, and comparison of, information on veterinary medicines and associated fees available at FOPs, veterinary medicines prices and the level of associated fees may be set by FOPs with limited regard to competitive constraints.
- 4.7 This section is structured as follows:
- (a) We describe the information made available to pet owners by FOPs in relation to veterinary medicines and associated fees.
 - (b) We set out the factors considered by pet owners when choosing a FOP, particularly the role of veterinary medicines in this choice.
 - (c) We provide an overview of the ability of pet owners to access and assess the information on veterinary medicines when choosing a FOP as well as when making a purchase within a FOP.
 - (d) We consider the extent to which FOPs compete on the costs faced by pet owners when accessing veterinary medicines, such as dispensing fees and prescription fees.
 - (e) We then summarise our emerging thinking on competition between FOPs in relation to veterinary medicines.
- 4.8 We assess whether pet owners may be overpaying for veterinary medicines that can be purchased from third-party retailers in the section **Competition between FOPs and third-party retailers** below.

Information made available by FOPs on veterinary medicines

- 4.9 As set out in the working paper on **How People Purchase Veterinary Services**, evidence received to date indicates that there is a wide range in the amount of pricing information that is made available to pet owners, largely depending on the policy of individual practices. Such pricing information typically includes only some basic services (including vaccinations) and not more complex treatments.

- 4.10 Our research of approximately half of all vet practice websites indicated that 84% had no pricing information, across both large groups and independently owned vets.¹⁷⁸ Since we conducted this research (in March 2024), we have heard anecdotal evidence from practices that they have started to put some prices on their websites,¹⁷⁹ and the British Veterinary Association (**BVA**) issued guidance (in May 2024) to veterinary professionals to issue price lists for frequently offered services.¹⁸⁰ These services included vaccinations and prescription fees.
- 4.11 LVGs submitted that the pricing information their FOPs provide, both online and in person, varied significantly between locations based on individual practice policies. LVGs submitted that many (but not all) of their practices publish some prices online, and that of those practices that have online prices, most only include a limited selection of services. In particular:
- (a) All LVGs submitted that decisions to display prices were made locally or at the individual practice level.¹⁸¹
 - (b) An LVG [redacted] submitted that there was a broad variety in the ways in which its individual practices displayed prices: some had online prices (including most which show the price of pet care plans), while others displayed vaccination and consultation prices in waiting rooms.¹⁸²
 - (c) Another LVG [redacted] provided a sample of what is provided to clients at certain practices, which is typically limited to a selection of services (such as vaccines and any fixed prices for referral services).¹⁸³
 - (d) One other LVG [redacted] submitted that it has a very large number of items on its price list (over 18,000), so would not consider it practical to attempt to display all of these to its customers.¹⁸⁴
 - (e) Another LVG [redacted] also submitted that it has a large number of items on its price list (740), the majority of which contain technical medical descriptions that were unique to [redacted], which it submitted would not be practicable to display.¹⁸⁵

¹⁷⁸ CMA consultation on veterinary services for household pets [Veterinary Services for Household Pets in the UK: Consultation on proposed market investigation reference](#), page 30.

¹⁷⁹ For example, from a roundtable discussion with new entrants, one attendee said that price lists online had drawn new clients to their practice. See: [New Entrants Roundtable Summary](#).

¹⁸⁰ [New BVA guidance helps profession address CMA concerns on transparency and client choice | British Veterinary Association](#).

¹⁸¹ LVG responses to RF11, Q12 [redacted].

¹⁸² LVG response to RF11, Q12 [redacted].

¹⁸³ LVG response to RF11, Q12 [redacted].

¹⁸⁴ LVG response to RF11, Q12 [redacted].

¹⁸⁵ LVG response to RF11, Q12 [redacted].

- (f) A further LVG [redacted] noted that it was common practice for FOPs to display prices for routine procedures in the waiting room (such as for consultations, vaccinations and neutering),¹⁸⁶ and that it encourages its practices to do so through centralised guidance.¹⁸⁷
- 4.12 Our review of LVG internal documents showed evidence of LVG policies to present prices clearly when they were being provided to pet owners in the consulting room, or for specific treatment plans.¹⁸⁸
- 4.13 Submissions from independent FOPs indicated that their display and advertising of pricing information also varied significantly. Some submitted that they included pricing information on their websites or in clinics, or both; others submitted that they did not proactively publish any price lists. The amount and detail of published prices varied significantly between respondents, with some stating that they would include only basic treatments and others publishing much more detailed price lists, including for surgeries and other complex treatments.¹⁸⁹
- 4.14 When taken together, this evidence suggests that FOPs provide information on a small number of veterinary medicines and associated fees, if they provide this information at all. This variety and a lack of standardisation in the information provided by FOPs may make it difficult for pet owners to effectively compare prices for veterinary medicines and associated fees between FOPs and to respond to the competitive offerings of alternative FOPs.

Factors considered by pet owners when choosing a FOP

- 4.15 Pet owners consider a range of factors when choosing a FOP, and the relative importance of these factors appears to differ significantly depending on the characteristics of the pet owner and the context of the choice they are making.
- 4.16 As set out in the working paper **How People Purchase Veterinary Services**, the most important factor considered by pet owners when choosing a FOP is location, followed by word of mouth and personal recommendations.
- 4.17 While a wide range of other factors is given varying weight by different pet owners in our survey, prices for vaccinations and medicines was cited by a small proportion of pet owners. This is shown in Figure 4.1 below.

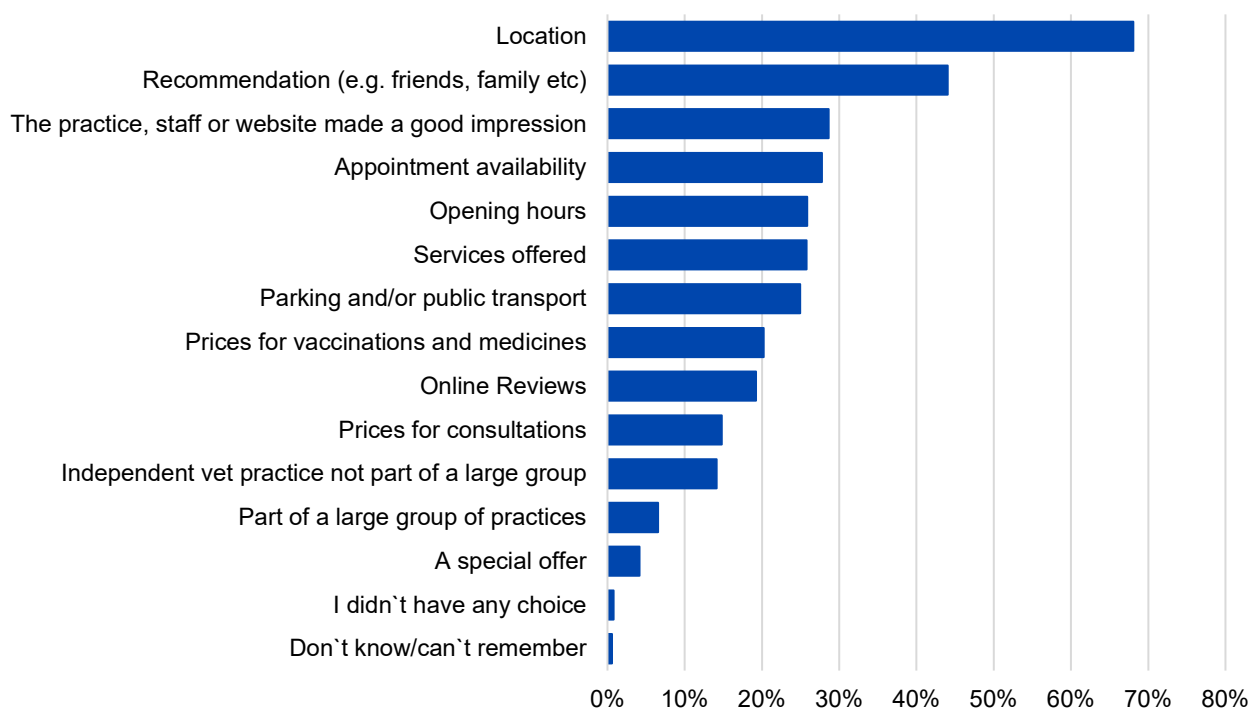
¹⁸⁶ LVG response to RF11, Q12 [redacted]

¹⁸⁷ LVG response to RF11 [redacted]

¹⁸⁸ LVG responses to RF13, Q24 [redacted]

¹⁸⁹ In response to our request for information to small and medium independent vet practices, out of 15 valid responses, 5 submitted that they publish prices online and in clinics, 4 submitted that they only publish prices online, 3 submitted that they only have prices in clinics, and 3 submitted that they do not proactively publish any price lists.

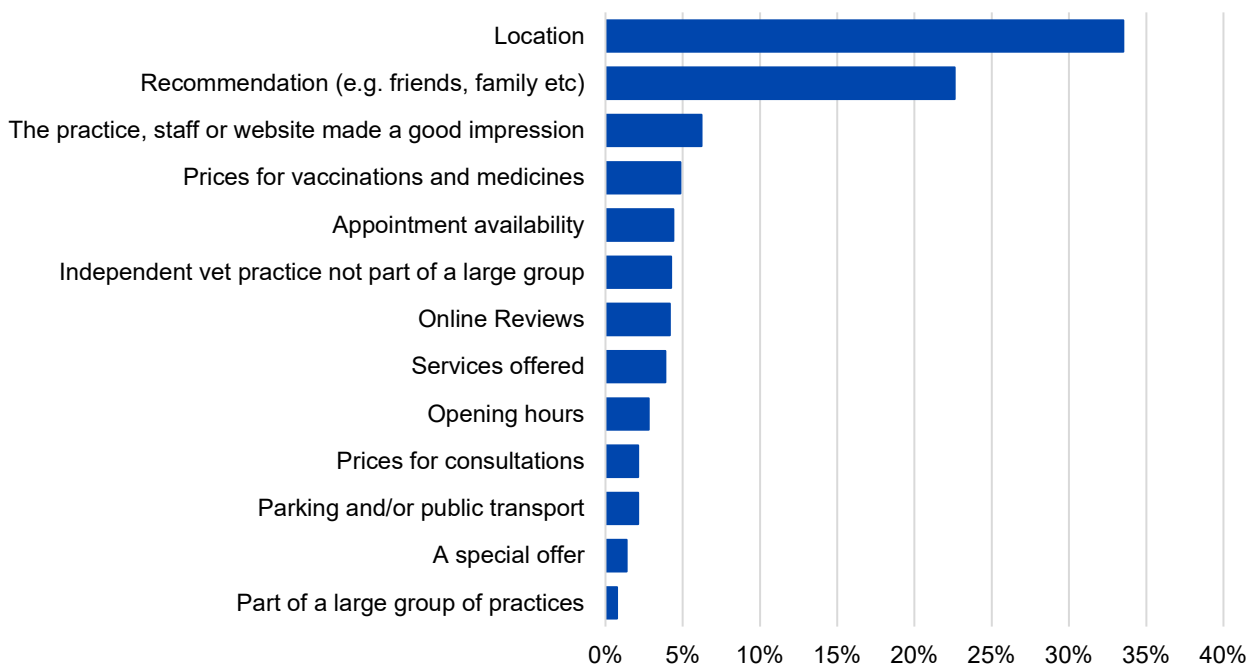
Figure 4.1: Factors considered when pet owners selected their current FOP



Source: Pet owners survey, Q13. Base: Respondents who have been with vet practice for less than 10 years.

- 4.18 Figure 4.1 shows that 20% of pet owners in our survey reported that they considered the prices for vaccinations and medicines when choosing a FOP. Although this is a small proportion of pet owners, we note that fewer respondents to our survey considered the prices for consultations (15%) when choosing a FOP than the prices for vaccinations and medicines (20%).
- 4.19 When asked to select the main reason for their current choice of FOP, only a minimal proportion of pet owners indicated prices for vaccinations and medicines. This is shown in Figure 4.2 below.

Figure 4.2: Main reason why pet owners selected their current FOP



Source: Pet owners survey, Q14. Base: Respondents that selected more than one factor for Q13.

- 4.20 Figure 4.2 shows that only 5% of pet owners in our survey reported that they considered the prices for vaccinations and medicines as the main reason for their choice of FOP. We note that while prices for vaccinations and medicines was the fourth most cited main reason by pet owners in our survey, far fewer respondents to our survey considered these prices than location (34%) and recommendations (23%) as the main reason for their choice of FOP.
- 4.21 We consider that it is likely that the survey overestimates the number of pet owners who considered the prices for veterinary medicines in their choice of FOP. This is because vaccinations not only include the administration of a vaccine but also a consultation with vets to check a pet. Vaccinations also appear to be one of the few veterinary products or services about which FOPs do provide price information to pet owners online or within their practice (as set out above) and pet owners are better able to predict the need for vaccines compared with other medication. We explore these points further below.
- 4.22 When taken together, this evidence on the behaviour of pet owners suggests that only a small proportion consider prices for veterinary medicines to be an important factor in their choice of FOP and that an even smaller proportion may have considered this as the main reason for choosing their current FOP. We note that pet owners may not consider prices for veterinary medicines when choosing a FOP as FOPs may not provide this information. As set out above, the variety and a lack of standardisation in the information provided by FOPs may make it difficult

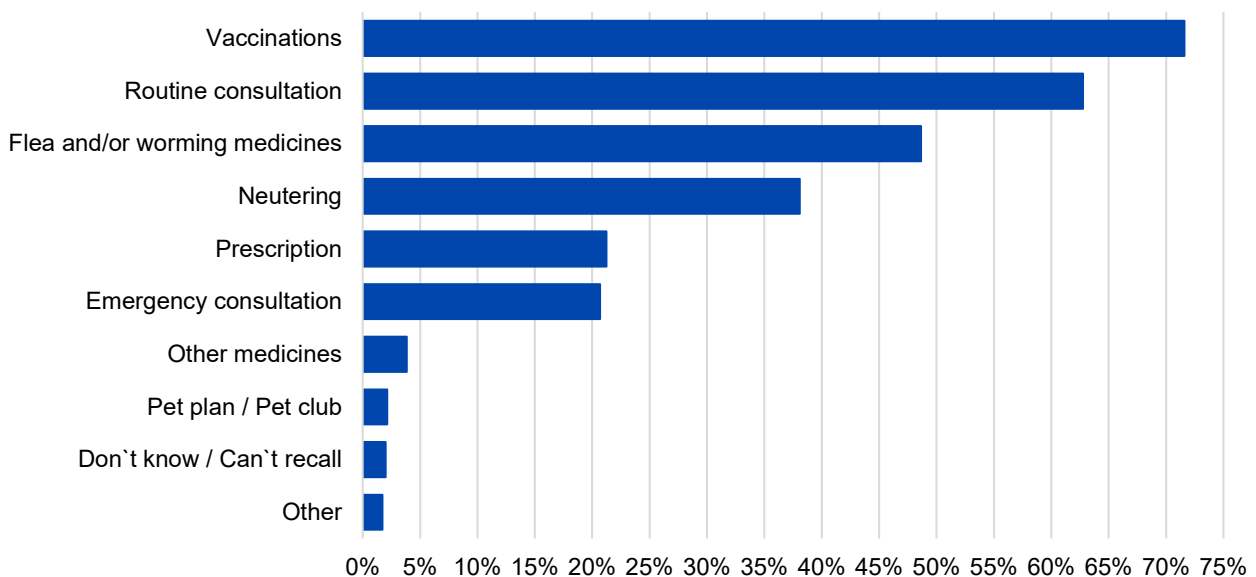
for pet owners to effectively compare prices for veterinary medicines and associated fees between FOPs and to respond to the competitive offerings of alternative FOPs.

Information on veterinary medicine prices accessed and assessed by pet owners

4.23 In our survey, 40% of respondents found out pricing information before choosing a FOP.¹⁹⁰ This includes the price of any product or services offered by FOPs as well as veterinary medicines.

4.24 Although a wide range of pricing information was considered by these respondents when choosing a FOP, prices for veterinary medicines was cited by only a small proportion of all pet owners that responded to our survey. This is shown in Figure 4.3 below.

Figure 4.3: Pricing information considered when pet owners selected their current FOP



Source: Pet owners survey, Q18.

4.25 Figure 4.3 shows that the price of vaccinations was the pricing information most considered by pet owners when selecting their current FOP (75%). As set out above, vaccinations include not only the administration of a vaccine but also a consultation with vets to check a pet. Vaccinations also appear to be one of the few veterinary services for which FOPs do provide price information to pet owners

¹⁹⁰ Pet owners survey, combination of Q17 (where those that said they considered prices as a factor when choosing a FOP were asked how they found pricing information before registering) and Q15 (where those that did not say they considered prices as a factor when choosing a FOP reported whether they nevertheless found pricing information before registering). 54% reported that they did not find out prices, and 6% could not recall.

online or within their practice and pet owners are better able to predict the need for vaccines compared with other medication. We therefore do not consider pet owners' behaviour in relation to vaccinations to be indicative of their behaviour in relation to veterinary medicines more generally.

- 4.26 Figure 4.3 also shows that 49% of pet owners that considered pricing information in their choice of FOP found out about the price of flea and/or worming medicines. Pet owners considering the price of on-going or routine medicines such as flea and/or worming medicines in their choice of FOP may be because they can more easily anticipate the need for them when compared with one-off or non-routine medications. This is because pet owners may have greater opportunity to acquire the pricing information needed to shop around for these types of veterinary medicines as well as being better able to measure the outcome of the treatment. The use of third-party retailers for the purchase of flea and/or worming medicines, as well as veterinary medicines more generally, is explored in the **Competition between FOPs and third-party retailers** section below.
- 4.27 In contrast, it is less likely that a pet owner can anticipate the use of one-off or non-routine medicines due to the inherent uncertainty of when they might be needed. This means we would not expect pet owners typically to compare the prices of non-routine medication when choosing a FOP as they do not know whether a vet would prescribe one-off or non-routine medication to a pet to treat a health concern. This can also be seen in Figure 4.3, where 21% of respondents to our survey that considered pricing information in their choice of FOP found out about the price of prescriptions, which may refer to prescription fees as well as the price of prescribed medication, while only a minimal proportion (4%) said that they found out about other types of veterinary medicines, which may include one-off or non-routine medication.
- 4.28 Consistent with our survey, other evidence indicates that the prices for vaccinations – rather than veterinary medicines more generally – are those that are more likely to be considered by pet owners when choosing a FOP.
- (a) Customer research from an LVG [redacted] in 2022 found that, for customers who ranked price as a factor when choosing a practice, vaccination prices ranked among the top price factors.¹⁹¹
 - (b) An LVG document [redacted] notes that price is important to pet owners when choosing a FOP and that this supports the heavy discounting applied to new client procedures, including vaccinations.¹⁹²

¹⁹¹ LVG response to RFI1 [redacted]

¹⁹² LVG response to RFI3, Q22 [redacted]

- (c) One LVG [redacted] referred to vaccinations as ‘shoppable items’ when explaining the services that its FOPs may include in pricing lists posted in waiting rooms.¹⁹³
- (d) At a roundtable discussion with new entrants, some attendees spoke about the importance of setting the right price points when establishing their business and that this could be a selling point, with one attendee highlighting the use of vaccines as loss leaders.¹⁹⁴

4.29 When taken together, this evidence on the behaviour of pet owners suggests that only a small proportion of pet owners seek out information on prices for veterinary medicines when choosing a FOP. The prices this small proportion considers finding information on are for veterinary services which include medicines as part of a bundled offering (such as vaccinations) or are for more routine veterinary medicines (such as flea and/or worming medicines). Our emerging view is that the prices that pet owners do consider are not indicative of their behaviour in relation to veterinary medicines more generally, such as the price of one-off or non-routine medication.

Fees charged by FOPs for accessing veterinary medicines

- 4.30 Pet owners may wish to consider the cost of accessing veterinary medicines when making their choice of FOP. This would include the dispensing fees, which are charged when a FOP is supplying medication for the pet owner to take home with them, as well as the fee for written prescriptions provided by a vet, which is charged when a pet owner wishes to purchase veterinary medicines from a third-party retailer rather than a FOP.
- 4.31 As set out in the **Nature of competition** section, the evidence available shows that there is a wide range of dispensing fees and that these fees may vary depending on the type of medicine being dispensed at a FOP. The available evidence also shows that there is a wide range of prescription fees charged by FOPs.
- 4.32 We have seen mixed evidence to date as to whether the wide range of dispensing fees and prescription fees is indicative of effective competition between FOPs.
- 4.33 On the one hand, the variability in dispensing and prescription fees charged by FOPs suggests that there is no recognised benchmark in the industry for these services. FOPs may also lack the ability to access information to easily observe fees set by their rivals and subsequently use to respond to such changes. As a

¹⁹³ LVG response to RFI3, Q12 [redacted].

¹⁹⁴ [New Entrants Roundtable Summary](#).

result, there may be limited price competition for these standard services available at all FOPs and these fees may not reflect the incremental costs of dispensing medication or providing a written prescription.

- 4.34 There may be limited competition between FOPs in relation to prescription fees because of the small proportion of pet owners that request a written prescription following a consultation. As set out in the **Competition between FOPs and third-party retailers** section below, the evidence available to us shows that only a small proportion of pet owners (16%) purchase medication from a third-party retailer with a written prescription provided by a vet at their FOP. The extent to which pet owners request written prescriptions and are aware of their ability to do so is explored further in our assessment of **Competition between FOPs and third-party retailers**.
- 4.35 On the other hand, the variance in prescription fees faced by pet owners may be a result of pricing decisions being made locally by FOPs, which may reflect differences in the strength of competition (as well the costs involved in providing written prescriptions) between FOPs in different local areas. For example:
- (a) Some LVGs [redacted], [redacted] give advice to practices on how to price written prescriptions but these fees are set locally by FOPs and not something that the relevant LVG imposes on individual practices.¹⁹⁵
 - (b) One other LVG [redacted] submitted that prescription fees were set locally at practice level and these LVGs did not provide any guidance or advice they give to practices.¹⁹⁶
 - (c) Another LVG [redacted] told us that, although its prescription fees were set centrally, these were set following a local benchmarking process and also considered historic levels of prescription fees at its FOPs.¹⁹⁷
 - (d) One LVG [redacted] submitted that practices were entirely free to determine prescription charges without guidance and there was significant variation.¹⁹⁸
 - (e) Evidence from independent vet practices [redacted] indicates that they set prescription fees with reference to the price of a consultation and the time required by the vet to prepare the prescription document or ensure the correct medications and dosages are being given.¹⁹⁹

¹⁹⁵ LVG responses to RF11, Q30 [redacted]. One of these LVGs [redacted] told us that, in setting prescription fees, FOP owners follow the Code of Professional Conduct for Veterinary Surgeons and supporting guidance.

¹⁹⁶ LVG response to RF11, Q30 [redacted].

¹⁹⁷ LVG response to RF11, Q30 [redacted].

¹⁹⁸ LVG response to RF11, Q30 [redacted].

¹⁹⁹ Independent vets response to RF11, Q16 [redacted].

- 4.36 One LVG [redacted] submitted that its prescription charge is set centrally for small animal practices, and this is between £10 and £20.²⁰⁰ This means that prescription fees at FOPs owned by this LVG do not vary with the strength of competition between FOPs in local areas.
- 4.37 When taken together, it appears to us that the available evidence suggests a range of factors may contribute to the wide range of dispensing fees and prescription fees we observe.
- 4.38 We will continue to explore whether the level of dispensing and prescription fees we observe is consistent with effective competition between FOPs as part of our investigation. We note that FOPs may currently have limited incentives to compete on prescription fees due to the small proportion of pet owners that request a written prescription following a consultation or consider the price of prescriptions when choosing a FOP.

Summary of our emerging thinking

- 4.39 This section sets out our current assessment of whether pet owners may be overpaying for veterinary medicines because of a lack of comparable information on prices for veterinary medicines and associated fees available to pet owners when choosing a FOP.
- 4.40 Based on the evidence set out above, we are currently concerned that pet owners may be overpaying for veterinary medicines purchased at a FOP and for accessing medication through a FOP.
- (a) FOPs provide information on only a small number of veterinary services, if they provide this information at all. These services may include vaccinations (which include a consultation as well as the administration of a vaccine) and prescription fees. The variety and a lack of standardisation in the information provided by FOPs may make it difficult for pet owners to effectively compare prices for veterinary medicines and associated fees between FOPs and to respond to the competitive offerings of alternative FOPs.
 - (b) Only a small proportion of pet owners consider prices for veterinary medicines to be an important factor in their choice of FOP and an even smaller proportion may have considered this as the main reason for choosing their current FOP. Pet owners that did consider prices for veterinary medicines are more likely to have considered bundled offerings (such as

²⁰⁰ LVG response to RF11, Q30 [redacted]

vaccinations) or medication that is more readily comparable (such as flea and/or tick treatments).

- (c) The variability in dispensing and prescription fees charged by FOPs suggests that there is no recognised benchmark in the industry for these services, and FOPs may lack information to observe and use to respond to changes in fees by their rivals. As a result, there may be limited price competition for these standard services available at all FOPs and these fees may not reflect the incremental costs of dispensing medication or providing a written prescription.

4.41 This evidence suggests that the price of veterinary medicines and associated fees does not impact the choice of FOP made by most pet owners. As a result of this weak response by pet owners to the competitive offerings of FOPs in relation to veterinary medicines, FOPs may be able to set prices with little regard to competition. This could result in pet owners paying more for veterinary medicines and associated fees over their pet's lifetime than they might if they had decided to choose an alternative FOP. There may be a particularly weak response from pet owners to prices of non-routine medication as these prices are rarely considered by pet owners when choosing a FOP.

5. Competition between FOPs and third-party retailers

- 5.1 Although only veterinary surgeons can prescribe certain veterinary medicines (POM-Vs), pet owners can choose where to purchase medication that has been prescribed by their vet. Pet owners may decide to buy veterinary medicines directly from their FOP or to buy medication from third-party retailers, in particular online pharmacies, with a written prescription provided by a vet for a fee. Using a written prescription to make a purchase at a third-party retailer may be particularly suitable for on-going medication and medicines that are easy for the pet owner to administer directly (such as flea and worming treatments or antibiotics).
- 5.2 As set out in **Outcomes of competition**, the limited evidence available suggests that there are substantial cost savings for pet owners who purchase veterinary medicines from online pharmacies compared with purchasing from a FOP. We would not expect to observe such significant price differences if there was effective competition between FOPs and third-party retailers.
- 5.3 In this section, we set out our current assessment of whether pet owners may be overpaying for veterinary medicines. This may be because of their lack of awareness of the options available to them at the point of sale in FOPs and the incentive of FOPs to act in a way which may limit the competitive constraint on FOPs from third-party retailers.
- 5.4 A strong response by pet owners to the competitive offerings of third-party retailers in relation to veterinary medicines can act as a competitive constraint on FOPs, stimulating rivalry between FOPs and third-party retailers through informed decision-making by pet owners which rewards those FOPs that best satisfy pet owners' needs or preferences. In contrast, a weak response by pet owners to the competitive offerings of third-party retailers can be a source of competitive harm. Such a weak response by pet owners may be caused by various factors, including the availability of information about the options available to them when purchasing veterinary medicines in FOPs or difficulties pet owners face in effectively comparing veterinary medicines between FOPs and third-party retailers.
- 5.5 FOPs – as commercial veterinary businesses – may have the incentive to act on this weak response by pet owners to their commercial advantage, although other considerations (such as the interests of pet owners or the professional and regulatory obligations of vets) may prevent FOPs from acting on this incentive. For example, FOPs could seek to influence the medication vets prescribe in favour of those which are more likely to be purchased directly from the FOP or are more profitable for their business. The ability of vets to influence the choices of pet owners, because of the 'gatekeeper' role held by vets as described in the **Nature of competition** section, may make it difficult for pet owners to compare veterinary

medicines between FOPs and third-party retailers. This may prevent pet owners from considering third-party retailers if, for example, vets recommend medications that vets are more likely to administer themselves.

5.6 As a result of this weak response by pet owners to the competitive offerings of third-party retailers, as well as the incentive and ability of FOPs to act on that weak response, competition in relation to veterinary medicines between FOPs and third-party retailers may be limited. FOPs may not be compelled to compete with third-party retailers on the price of the veterinary medicines they offer in order to win and retain business. Where pet owners face significant impediments or costs in their search for, and comparison of, information on veterinary medicines available through third-party retailers, the prices for veterinary medicines may be set by FOPs with limited regard to competition.

5.7 This section is structured as follows:

- (a) We set out our analysis of the number of written prescriptions requested by and provided to pet owners by FOPs and how this has evolved in recent years.
- (b) We provide an overview of the awareness of pet owners of their ability to request a written prescription to purchase medication through a third-party retailer and the information available to them in FOPs about this option.
- (c) We explore differences in the use of FOPs and third-party retailers between pet owners whose pets have been prescribed one-off medication and those that have been prescribed on-going medication.
- (d) We summarise the evidence currently available on competition between FOPs and online pharmacies as well as the impact this competition has had on the commercial strategies of LVGs and independent FOPs.
- (e) We assess the barriers pet owners face when attempting to use third-party retailers for veterinary medicines, in particular in relation to the actions by FOPs to influence pet owners when prescribing veterinary medicines.
- (f) We then summarise our emerging thinking on competition between FOPs and third-party retailers in relation to veterinary medicines.

Written prescriptions requested by and provided to pet owners

5.8 Our survey showed that 20% of pet owners had requested a written prescription from their FOP in the past two years and that 6% had done so on their last visit to

their FOP.²⁰¹ In comparison, 44% of pet owners had purchased medication from their FOP in the past two years and that 15% had done so on their last visit to their FOP.²⁰² While at least some pet owners may not consider requesting a written prescription from their FOP to purchase veterinary medicines through third-party retailers, we might plausibly expect the number of pet owners who consider using third-party retailers to buy veterinary medicines to be significantly higher if the market for veterinary medicines was working well.

5.9 Three LVGs [X] told us that the number of pet owners requesting written prescriptions has been increasing.²⁰³ This is consistent with data obtained from all LVGs, which showed the absolute number of written prescriptions issued at LVG-owned FOPs has increased over time (as shown in Table 5.1 below).²⁰⁴

Table 5.1: Numbers of written prescription and the proportion of written prescriptions issued out of all instances where medication was dispensed and purchased by pet owners at LVG-owned FOPs

	[X]	[X]	[X]	[X]	[X]	[X]
2020 Written Prescriptions % of dispensed medications	[X] [X]	[X] [X] [0-5%]	[X] [X] [0-5%]		[X] [X] [0-5%]	[X] [X] [0-5%]
2021 Written Prescriptions % of dispensed medications	[X] [X]	[X] [X] [0-5%]	[X] [X] [0-5%]		[X] [X] [0-5%]	[X] [X] [0-5%]
2022 Written Prescriptions % of dispensed medications	[X]	[X] [X] [0-5%]	[X] [X] [0-5%]	[X] [X] [5-10%]	[X] [X] [0-5%]	[X] [X] [0-5%]
2023 Written Prescriptions % of dispensed medications	[X] [X] [5-10%]	[X] [X] [0-5%]	[X] [X] [0-5%]	[X] [X] [5-10%]	[X] [X] [0-5%]	[X] [X] [0-5%]
2024 Written Prescriptions % of dispensed medications			[X] [X] [0-5%]	[X] [X] [5-10%]	[X] [X] [5-10%]	[X] [X] [0-5%]

Source: CMA analysis of data provided by LVGs

5.10 Table 5.1 also shows that the number of written prescriptions remains a low proportion (less than 10%) of the instances where medications has been purchased by pet owners at LVG-owned FOPs, with this proportion increasing only slightly over the past five years.

5.11 We note that the data provided by some LVGs used in the analysis set out in Table 5.1 has several limitations. These limitations include:

- (a) Written prescriptions being for larger quantities of medication than the quantity of medication dispensed by a vet in a FOP.²⁰⁵ We consider the

²⁰¹ Pet owners survey, Q42 and Q46.

²⁰² Pet owners survey, Q42 and Q46.

²⁰³ LVG responses to Issues Statement [X].

²⁰⁴ LVG responses to RFI11 Q19 [X].

²⁰⁵ LVG response to RFI11, Q19 [X].

evidence on differences in the scope of written prescriptions below when assessing barriers to using third-party retailers faced by pet owners.

- (b) Veterinary medicines for certain treatments (such as flea and worm treatments or vaccines) being excluded.²⁰⁶
- (c) Some data including both human and veterinary medicines prescribed by a vet.²⁰⁷
- (d) Not all LVG-owned FOPs being included in the data provided by an LVG.²⁰⁸

5.12 In addition, as we understand that on-going medication can be dispensed multiple times using the same written prescription, our analysis of information obtained from FOPs would provide an underestimate of the instances where pet owners purchased on-going medication from an online pharmacy instead of purchasing from a FOP.

5.13 We do not currently consider that these data limitations would change the overall inference we are drawing from this analysis that written prescriptions remain a low proportion of the instances where medications are purchased by pet owners at LVG-owned FOPs.

5.14 Data on the incidence and trend in written prescriptions from independent FOPs also showed that written prescriptions are a minimal proportion of the number of medications purchased by pet owners at FOPs. For example:

- (a) One independent FOP group [REDACTED] provided data that showed written prescriptions increased from 1.6% of sales volumes to 2.7% over the last three years.²⁰⁹
- (b) Data from another independent FOP group [REDACTED] showed the incidence of written prescriptions over the last three years was less than 1% in each of the past three years.²¹⁰ This independent FOP group noted that this is despite pet owners being offered the choice to request a written prescription rather than purchase medication from its FOPs.
- (c) Data from one other independent FOP [REDACTED] indicated that the incidence of written prescriptions was negligible. In 2022, written prescriptions accounted for 0.1% of total dispensed medications. This increased to 0.12% in 2024.²¹¹

²⁰⁶ LVG responses to RF111, Q19 [REDACTED]

²⁰⁷ LVG response to RF111, Q19 [REDACTED]

²⁰⁸ LVG responses to RF111, Q19 [REDACTED].

²⁰⁹ Independent response to RF11, Q10 [REDACTED]

²¹⁰ Independent response to RF11, Q10 [REDACTED]

²¹¹ Independent response to RF11, Q10 [REDACTED]

5.15 When taken together, the overall share of written prescriptions of all medication dispensed and purchased within FOPs is low. We note, however, that the number of written prescriptions provided is greater for some FOPs than others.

Information made available to pet owners in a FOP

5.16 Given evidence that suggests only a low proportion of pet owners requested a written prescription from their FOP, we would expect that many pet owners are unaware that they can ask their veterinary surgeon for a written prescription and for there to be a lack of effective promotion of this option to pet owners within FOPs.

5.17 As set out in the working paper **How People Purchase Veterinary Services**, evidence from our pet owners survey indicates that many pet owners are not aware that they can acquire veterinary medicines from third parties other than their FOP.

(a) Many respondents said they did not know they could obtain a prescription from their practice and get the medication elsewhere (38%, with 57% saying they were aware of this fact and 4% being unsure).²¹² This question was asked only of respondents whose pet had been prescribed medication in the past two years.

(b) Of those that did report knowing they could get medicines from a third-party retailer, the highest number of respondents (42%) said they were made aware of this via word of mouth (for example from friends, family, and other pet owners), while 35% said they were informed by their current vet practice.²¹³

5.18 Our survey of pet owners also found that, while most pet owners did not compare prices for veterinary medicines, those that did were aware that they could request a written prescription from their FOP.

(a) 30% of respondents whose pet had been prescribed medication in the past two years said that they compared prices of medicines.²¹⁴ Most respondents said that they did not attempt to compare prices (60%), and a further 9% said that they tried to compare prices but could not find information.

²¹² Pet owners survey, Q91.

²¹³ Pet owners survey, Q91b.

²¹⁴ Pet owners survey, Q98.

- (b) Of the 30% of respondents that did report they had compared prices of medicines, the vast majority of respondents (89%) were aware that they could obtain a prescription from their FOP.²¹⁵
- (c) In contrast, more than half of the 60% of respondents that did not attempt to compare prices were not aware that they could obtain a prescription from their FOP (54%, with 40% saying that they were aware of this fact and 6% being unsure).²¹⁶

5.19 When taken together, this evidence from our survey suggests that a large majority of respondents are unaware of any price savings they might obtain by shopping around as they were unaware that they could purchase medicines from third-party retailers by requesting a written prescription from their FOP.

5.20 In our qualitative research, some veterinary surgeons reported that not all of their clients were aware that they could ask for prescriptions.²¹⁷ A few veterinary surgeons mentioned being directly told by their practice manager or senior staff not to offer prescriptions unless asked to do so by the pet owner.²¹⁸

5.21 To be compliant with RCVS Guidance, vets 'must...advise clients, by means of a large and prominently displayed sign or signs (in the waiting room or other appropriate area)' that written prescriptions are available and that clients can also purchase veterinary medicines from another veterinary surgeon or pharmacy.²¹⁹

5.22 Given the lack of awareness of this option among many pet owners, it appears that this information may not be presented effectively, and often may not be proactively provided to pet owners when they make choices to purchase veterinary medicines. The effectiveness of RCVS guidance is explored further in the working paper **Regulatory Framework for Veterinary Professionals and Veterinary Services**.

5.23 Our qualitative research indicated that individual vets did not always proactively offer prescriptions as an option to pet owners when recommending that they purchase medicines. This research suggested that:

- (a) Vets did not tend to proactively offer prescriptions for one-off medication because many vets believed that it could be more expensive for pet owners

²¹⁵ Pet owners survey, Q91 by Q98.

²¹⁶ Pet owners survey, Q91 by Q98.

²¹⁷ Qualitative research with veterinary professionals, page 32.

²¹⁸ Qualitative research with veterinary professionals, page 32.

²¹⁹ RCVS Guidance, paragraph 10.3; RCVS, [Guidance on Fair trading requirements](#).

to pay for the prescription fee as well as to pay the medication price charged by online pharmacies on a one-off basis.²²⁰

- (b) Many vets did discuss prescriptions for on-going medication with pet owners.²²¹ While most vets reported proactively providing the option of a written prescription for on-going medication, some reported that it was not something they did as a matter of course unless their client directly asked for one or raised concerns about the prices.

- 5.24 Most LVGs submitted that they do not provide detailed guidance to FOPs regarding the way in which they provide written prescriptions, beyond noting that FOPs should follow the RCVS Guidance.²²² Some LVGs submitted that, instead, decisions about the provision of written prescriptions for veterinary medicines were made by individual FOPs and individual vets operating with clinical freedom.²²³
- 5.25 When taken together, this evidence appears to us to suggest that a substantial proportion of pet owners are not aware they can purchase veterinary medicines from third-party retailers and that they may not be effectively informed of their ability to do so. We note that most respondents to our survey found out about their ability to request a written prescription from a source other than their current FOP.
- 5.26 The reasons why pet owners that are aware of their ability to request a written prescription may decide to purchase veterinary medicines from a FOP rather than a third-party retailer are explored further below.

Differences between one-off medication and on-going medication

- 5.27 As our qualitative research suggested that individual vets were more likely to offer written prescriptions when recommending that pet owners purchase on-going medication than one-off medication, we have considered whether the behaviour of pet owners differs between one-off medication and on-going medication.
- 5.28 Of the pet owners that responded to our survey, 65% said that their pet was prescribed a medication in the last two years.²²⁴ Of this group, 60% said they received a one-off prescription while 39% said they have repeat prescriptions.²²⁵ Of respondents with on-going medications, the most typical paying frequencies were: monthly (38%), every 3 months (26%), and every 6 months (17%).²²⁶

²²⁰ Qualitative research with veterinary professionals, page 30.

²²¹ Qualitative research with veterinary professionals, page 31.

²²² LVG responses to RF111, [§].

²²³ LVG responses to RF111, Q18 [§].

²²⁴ Pet owners survey, Q90b.

²²⁵ Pet owners survey, Q92.

²²⁶ Pet owners survey, Q93.

5.29 While our survey found that most pet owners purchased one-off medication and on-going medication directly from their FOP, more pet owners had used an online pharmacy for on-going medication than had those that had been prescribed one-off medication for their pet.²²⁷ This is shown in Table 5.2 below.

Table 5.2: Where pet owners in our survey purchased prescribed medication

	<i>One-off medication</i>	<i>On-going medication</i>	<i>All medication</i>
Directly from my vet practice	88%	71%	81%
From another vet practice	2%	0%	1%
In person from a retailer or pharmacy	2%	2%	2%
Online from a retailer or pharmacy	7%	26%	14%
Don't remember	2%	1%	1%

Source: Pet owners survey, Q95 and Q96

5.30 Our survey also found that even pet owners that were aware they could request a written prescription were more likely to purchase both one-off medication and on-going medication directly from their FOP than from a third-party supplier.

- (a) A large proportion of respondents that purchased one-off medication directly from their FOP were aware that they could request a written prescription to make a purchase elsewhere (41%, with 54% saying that they were not aware of this fact and 5% being unsure).²²⁸
- (b) Most respondents that purchased on-going medication directly from their FOP were aware that they could request a written prescription to make a purchase elsewhere (63%, with 31% saying that they were not aware of this fact and 6% being unsure).²²⁹

5.31 This suggests that, in addition to the lack of awareness that they can request a written prescription to purchase medication elsewhere, pet owners may face other barriers to purchasing veterinary medicines from third-party retailers. These barriers are explored further below.

5.32 The available evidence also suggests that pet owners are more likely to request a written prescription for certain types of on-going medication and that they may consider third-party retailers for veterinary medicines that can be purchased without a written prescription from a vet (such as preventative flea treatments). For example:

²²⁷ Although the pet owners survey indicates that some pet owners do purchase some medication for animals from 'bricks and mortar' pharmacies, we have not seen evidence to suggest that this is a material sales channel for veterinary medicines.

²²⁸ Pet owners survey, Q95 by Q91.

²²⁹ Pet owners survey, Q96 by Q91.

- (a) One LVG [redacted] told us that, on average, [20-30%] of the transactions for its four most common chronic medicines ([redacted]) are now being given as a prescription to purchase elsewhere (up from [20-30%] two years ago).²³⁰ [redacted].
- (b) An internal document from an LVG [redacted] analyses research on the reasons why pet owners do not purchase parasiticides (flea and tick treatments) from their FOP.²³¹ Most participants in this research indicated that functional barriers (such as convenience, the ability to have products delivered, and the cheaper price of products from online pharmacies) made them less likely to purchase this medication from a FOP.

5.33 As with routine medications (as set out in **Competition between FOPs**), pet owners may be more likely to compare products and prices between FOPs and online pharmacies for medication that their pet needs for continuing or preventative treatment. As treatments for chronic conditions typically require ongoing medication rather than a one-off treatment, pet owners may have greater opportunity to acquire the information needed to shop around for these types of veterinary medicines as well as being better able to measure the outcome of the treatment.

5.34 We understand that some veterinary medicines that are required to be prescribed by veterinary surgeons (POM-Vs) have alternatives that can be purchased from third-party retailers without a written prescription (AVM-GSLs). These over-the-counter medicines could be used by pet owners to treat the same conditions (such as fleas) as those available at FOPs. We are considering whether the availability of these medications from third-party retailers could act as a benchmark for the retail prices of veterinary medicines at their FOP as well as provide pet owners with the information needed to compare products and shop around for these types of veterinary medicines.²³²

5.35 When taken together, this evidence indicates that only a small number of pet owners are using third-party retailers for the purchase of veterinary medicines overall but that some pet owners may be more willing to consider purchasing ongoing medication than one-off medication outside their FOP. Pet owners may be more likely to purchase certain types of veterinary medicines from third-party retailers that are more readily comparable and that they expect to use often.

²³⁰ LVG response to RFI11, Q19 [redacted].

²³¹ LVG response to RFI3, Q46 [redacted].

²³² We note that over the counter medicines may use different active ingredients and may differ in efficacy to alternative products available at FOPs given the different classification of these products (as set out in the **Nature of competition** section) which means they not always be suitable comparators.

Current competition between FOPs and third-party retailers

- 5.36 While only a small proportion of pet owners are using third-party retailers for the purchase of veterinary medicines, we have seen some evidence of competition between FOPs and third-party retailers.
- 5.37 As set out above, LVGs and independent FOPs have told us that the competitive constraint on FOPs from online pharmacies has been increasing in recent years and that they compete on the price of veterinary medicines with online pharmacies. In particular:
- (a) One LVG [redacted] submitted that ‘there is a clear upward trend in the proportion of customers seeking a prescription with a view to purchasing medicines online’ which is putting ‘pressure on all veterinary practices to charge lower prices for medicines’.²³³
 - (b) Another LVG [redacted] told us it ‘has seen an increase in requests for written prescriptions for use with third parties over time’.²³⁴
 - (c) One other LVG [redacted] said that veterinary medicines is ‘a competitive market, particularly as consumers are increasingly opting to purchase prescription-only medicines from alternative sources outside the FOPs’.²³⁵
 - (d) Some independent FOPs ([redacted], [redacted], [redacted], [redacted]) said that they faced strong competitive pressure from online pharmacies in relation to the supply of veterinary medicines.²³⁶
- 5.38 However, the evidence currently available to us (as set out above) shows that only a small proportion of pet owners are using third-party retailers for the purchase of veterinary medicines overall. This suggests that competition between FOPs and third-party retailers (as observed by LVGs and independent FOPs) is currently limited.
- 5.39 In particular, the relatively low proportion of pet owners currently using online pharmacies for on-going medication is indicative of a weaker response by pet owners to the competitive offerings of online pharmacies than we would expect in a well-functioning market, considering the likely cost savings of purchasing from an online pharmacy can be significant. As set out in the **Outcomes of competition** section, the limited evidence currently available to us suggests that the pet owners purchasing from online pharmacies can make substantial savings

²³³ LVG response to Issues Statement [redacted].

²³⁴ LVG response to Issues Statement [redacted].

²³⁵ LVG response to Issues Statement [redacted].

²³⁶ Independent responses to RFI1, Q4 [redacted].

and that there are concerns among vets and pet owners that on-going medication at FOPs are 'over-priced' relative to online pharmacies. There may be several reasons why this could be the case, which we explore in the sections below.

- 5.40 The ownership of online pharmacies by LVGs may limit competition between FOPs and third-party retailers. As set out in the **Nature of competition** section, four online pharmacies in the UK are owned and operated by three LVGs: CVS is in the same group as Animed Direct, IVC is in the same group as Pet Drugs Online (PDOL), and 365Vet and Vet UK are in the same group as VetPartners.²³⁷ We have also seen evidence that another LVG ([redacted]) has considered launching or purchasing an online pharmacy, in part as a response to the ownership of online pharmacies by other LVGs.
- 5.41 Competition between FOPs and online pharmacies may be more limited where LVGs own online pharmacies compared with a scenario where online pharmacies are independently owned. This is because an LVG-owned online pharmacy would be attracting pet owners away from FOPs also owned by the same LVG, which may dampen the incentive of the LVG-owned pharmacy to lower its retail prices or to promote its lower prices to pet owners.
- 5.42 Nevertheless, LVG-owned online pharmacies appear to have lower prices than FOPs (as set out in the **Outcomes of competition** section), which suggests that they do have an incentive to compete with FOPs on the price of veterinary medicines. This could be because, once a pet owner has requested a written prescription from a FOP, there is strong competition between online pharmacies to win the sale of the pet owner. The greater availability of information on the prices set by online pharmacies, which allows pet owners to effectively compare the price of the same veterinary medicines between them, could also facilitate competition between online pharmacies.
- 5.43 As well as this potential impact on current competition, the ownership of online pharmacies by LVGs may limit competition between FOPs and online pharmacies in future. If there were stronger competition between FOPs and online pharmacies in the future, an incentive could emerge for vets at LVG-owned FOPs (as part of the 'gatekeeper' role they hold) to steer pet owners towards the online pharmacies owned by the same LVG. This may limit ability of other online pharmacies – including those owned by other LVGs – to attract pet owners away from FOPs.
- 5.44 There might be commercial reasons for LVGs that own FOPs and online pharmacies to act on this incentive as it would be in their commercial interest to steer pet owners in this way to retain sales of veterinary medicines within their

²³⁷ Online Pharmacies responses to RF11, Q4(a) [redacted].

overall business and to mitigate the loss of profits from these sales to other online pharmacies.

5.45 However, we also recognise that professional and regulatory obligations on vets may prevent FOPs from acting on this incentive, even if it were to arise. This is because the RCVS Guidance states that written prescriptions provided by vets should not contain any specific recommendation of which retailer to purchase veterinary medicines from.²³⁸ Where a specific recommendation is made, such as a vet indicating a preferred retailer verbally (as envisaged by the RCVS Guidance), any commercial interest a vet or their employer may have in the retailer should be made clear to the pet owner when providing the written prescription to them.

5.46 We will continue to explore these concerns as part of our investigation and welcome views on these issues in response to this working paper.

Barriers to using third-party retailers faced by pet owners

5.47 Even when pet owners are aware of their ability to purchase veterinary medicines from third-party retailers, they may face barriers which prevent them from making purchases from retailers other than their FOPs.

5.48 This sub-section explores some of these barriers and is structured as follows:

- (a) We consider the reasons pet owners may prefer purchasing veterinary medicines from FOPs rather than a third-party retailer.
- (b) We assess whether the current level of prescription fees acts as a barrier to purchasing medication from third-party retailers, particularly where the prescription fee is equivalent to the potential saving available to a pet owner when purchasing from an online pharmacy.
- (c) We evaluate the extent to which the Own Brand products offered by CVS and IVC may act as a barrier to purchasing veterinary medicines through third-party retailers by making comparisons more difficult for pet owners.
- (d) We explore whether FOPs may restrict access to veterinary medicines by providing written prescriptions for shorter periods or limiting (more than is clinically justified) the number of times a written prescription can be used for

²³⁸ RCVS Guidance, paragraph 10.6, states that 'A veterinary surgeon should not prevent a client from using the medicines retailer of their choice. Written prescriptions should not contain any specific recommendations of medicines retailers. If specific recommendations are given to clients by other means, however, veterinary surgeons should be able to justify their recommendations and where the veterinary surgeon or their employer has a financial or commercial interest in the medicines' retailer, this should be drawn to clients' attention.'

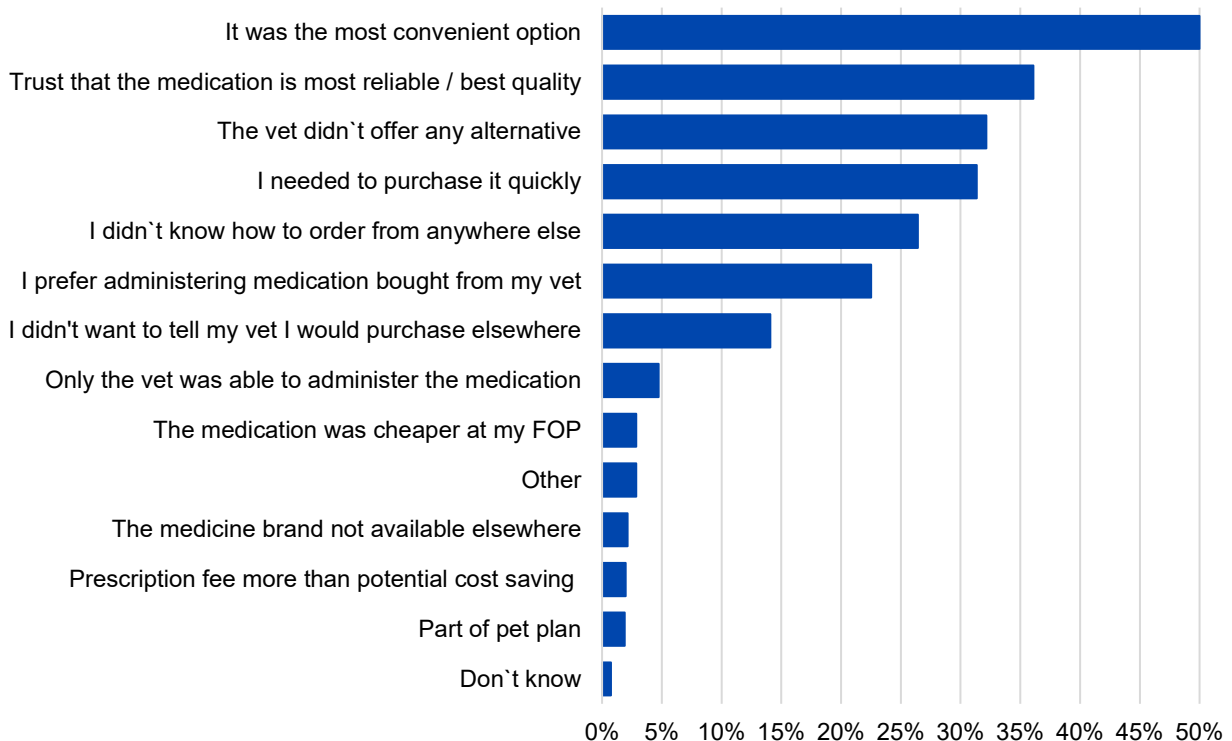
repeats, which may act as a barrier to purchasing veterinary medicines through third-party retailers as pet owners are required to return to a FOP more frequently.

- (e) We assess whether injectable veterinary medicines could act as a barrier to purchasing veterinary medicines from third-party retailers as pet owners might be nervous about injecting medicines to their pet, despite being in theory able to administer those medicines.

There are several reasons why pet owners may prefer purchasing veterinary medicines from FOPs

5.49 Evidence from our survey indicates that some pet owners may prefer buying medicines from their FOP for a variety of reasons. The reasons reported by respondents who said they had bought medicines from their FOP in the last two years is shown in Figure 5.1 below.

Figure 5.1: Reasons why pet owners purchased medication from their current FOP



Source: Pet owners survey, Q99

5.50 Figure 5.1 shows that it may be convenient for pet owners to purchase veterinary medicines directly from their FOP or could even be necessary when their pet needs the medicine quickly. 50% of respondents bought medicines from their FOP because it was the most convenient option. 31% of respondents said they bought from their FOP as they needed to purchase the medication quickly. We note that

pet owners may experience a range in urgency depending on the context of their medicine purchase. Where medicines are purchased to treat an urgent condition, obtaining medicines directly from a FOP is likely to be a better option for most pet owners.

- 5.51 Figure 5.1 also shows that the nature of veterinary medicines may lead to pet owners purchasing medication from a FOP rather than third-party retailers. As set out in the **Nature of competition** section, some veterinary medicines can be considered credence goods. It is difficult for pet owners to know what their pet's health needs are, or to evaluate the quality of service received, even retrospectively. There is therefore an information asymmetry between pet owners and veterinary professionals, and pet owners must rely on veterinary professionals as trained experts to recommend what services a pet needs and then to provide those services.
- 5.52 Consistent with this, evidence from our pet owners survey indicates that 36% of respondents bought medicines from their FOP because they trusted that the medication from their vet was the 'most reliable' or the 'best quality'. 23% of respondents said they bought from their FOP because they felt most comfortable administering medicine bought from their own vet practice, with 5% saying that only their vet was able to administer the medication. We consider these responses could reflect different attitudes, including that pet owners might be nervous about the process of administering medicines (where their vet could provide advice or a demonstration of this process), or that pet owners are in general more 'comfortable' with medicines purchased from their vet.
- 5.53 Given these reasons, at least some pet owners may not consider purchasing veterinary medicines through third-party retailers even if they are aware of this option given their preference to purchase medication from a FOP. While we might plausibly expect the number of pet owners who consider using third-party retailers to buy veterinary medicines to be significantly higher if the market for veterinary medicines was working well, the preferences of at least some pet owners to continue purchasing from their FOP would limit the extent of competition between FOPs and third-party retailers in a well-functioning market.
- 5.54 Evidence from our survey indicates pet owners face several barriers which prevent them from purchasing veterinary medicines from third-party retailers. As shown in Figure 5.1, 32% of those respondents who said they had bought medicines from their FOP in the last two years said that they did so because the vet did not offer any alternative; 26% of the same respondents purchased medicines from their FOP as they did not know how to order them from anywhere else; and 14% of the same respondents did not want to tell their vet that they would purchase

medication elsewhere. These barriers relate to the provision of information to pet owners within FOPs, which we have assessed above.

Prescription fees may reduce or eliminate the savings available to pet owners when purchasing veterinary medicines through third-party retailers

- 5.55 As set out in the **Nature of competition** section, pet owners are charged fees in relation to veterinary medicines by FOPs, including for the provision of a written prescription from a vet. The low proportion of pet owners that request a written prescription following a consultation or consider the price of prescriptions when choosing a FOP may contribute to the limited price competition between FOPs in relation to fees for written prescriptions (as set out in **Competition between FOPs**).
- 5.56 FOPs may have an incentive to increase prescription fees rather than compete with other FOPs on these fees. This is because prescription fees could act as a barrier to pet owners purchasing veterinary medicines through third-party retailers where the cost of a written prescription is large relative to the benefit of paying a lower price when purchasing from a third party.
- 5.57 Evidence available to date suggests that pet owners and vets are aware that prescription fees may reduce or eliminate the savings that could be made when purchasing veterinary medicines from an online pharmacy with a written prescription.
- (a) As set out above, many veterinary surgeons in our qualitative research believed that it could be more expensive for pet owners to pay for the prescription fee as well as to pay the medication price charged by an online pharmacy on a one-off basis and as a result did not tend to proactively offer prescriptions for one-off treatments.²³⁹
 - (b) One independent vet noted that, once the prescription fee was factored in, the total cost for purchasing medicines in a practice was not much more than buying online.²⁴⁰ Consequently, the vet noted they do not write many prescriptions for pet owners to go online.
 - (c) One pet owner provided information that, although the medication prescribed by their vet was far cheaper to purchase online than from their FOP, the £24 prescription fee they were charged negated any potential savings and made the total cost of purchasing from an online pharmacy equal to their FOP.²⁴¹

²³⁹ Qualitative research with veterinary professionals, page 30.

²⁴⁰ [Edinburgh roundtable summary](#), paragraph 18.

²⁴¹ Individual Correspondence, Pet owner email [redacted]

- 5.58 In contrast, one LVG [redacted] submitted Apoquel as an example of when it was still cost effective to purchase a medication online even after the prescription fee had been included in the overall price when giving a prescription for its usual dosage (30 tablets).²⁴²
- 5.59 When taken together, this evidence suggests that the current levels of prescription fees may also act as a barrier to pet owners purchasing veterinary medicines through third-party retailers. FOPs may have the incentive to increase prescription fees to retain the sales of veterinary medicines, rather than allow pet owners the opportunity to purchase through third-party retailers, and an ability to do so by limiting the information made available to pet owners in relation to requesting a written prescription (as set out above).

Own Brand products may discourage pet owners from being able to purchase veterinary medicines through third-party retailers

- 5.60 As set out in the **Nature of competition** section, CVS and IVC now offer Own Brand products. CVS has a total of 46 Own Brand products which are supplied under its MiPet brand name.²⁴³ IVC currently has five products that it distributes as Own Brand versions of existing veterinary medicines, four of which have been introduced since June 2024.²⁴⁴
- 5.61 There is a degree of overlap between the range of Own Brand products offered by CVS and IVC.²⁴⁵ For example:
- (a) [redacted]
 - (b) [redacted]²⁴⁶
 - (c) [redacted]
- 5.62 As set out in the **Nature of competition** section, these Own Brand products are available only from FOPs owned by these LVGs or, in the case of CVS, independent FOPs who are members of CVS buying groups.²⁴⁷
- 5.63 This means that [redacted] do not sell their Own Brand products at their company-owned online pharmacies [redacted]²⁴⁸ These LVGs provided differing rationale for this decision.

²⁴² LVG response to Issues Statement [redacted]

²⁴³ LVG response to RFI3 [redacted]

²⁴⁴ LVG response to RFI11, Q24 [redacted]

²⁴⁵ LVG responses to RFI1, Q54 [redacted]

²⁴⁶ LVG response to RFI11, Q13 [redacted]

²⁴⁷ LVG responses to RFI11, Q26(a), Q26(b) [redacted]; and [redacted] retrieved 22 November 2024.

²⁴⁸ LVG responses to RFI11, Q26(f) [redacted].

(a) [REDACTED] told us its pharmacies focused on stocking widely recognised brands to meet customer demand.²⁴⁹ This LVG also noted that it does not sell its Own Brand products at its online pharmacy [REDACTED].

(b) [REDACTED] told us its pharmacy business is [REDACTED].²⁵⁰

5.64 CVS' website further highlighted its Own Brand products improved retention of sales in, and visits to, FOPs stocking these products, ensuring pets received the best care.²⁵¹

5.65 The introduction of these products could make it more difficult for pet owners to find comparable information on the medication prescribed by vets at CVS- and IVC-owned FOPs. This is because pet owners would first need to find information, from a trusted source, on the available alternatives, which would have different product names and other product characteristics, before assessing whether to accept the Own Brand version of a veterinary medicine from their vet. Pet owners may also not be able to do this as they must rely on veterinary professionals as trained experts to recommend what services the pet needs.

5.66 When asked whether vets would provide written prescriptions for these Own Brand products, [REDACTED] told us that vets at its FOPs would provide written prescriptions for alternative products if a written prescription were requested.²⁵² [REDACTED] told us the same.²⁵³ [REDACTED] also said that its veterinary professionals had clinical autonomy over the medicines they choose to prescribe such that Own Brand products may not be recommended to pet owners in all circumstances.²⁵⁴ [REDACTED] also submitted this.²⁵⁵ However, we have not seen evidence to suggest that [REDACTED] proactively provide pet owners with the names of alternative branded or generic products to enable them to compare the Own Brand products with those available through third-party retailers, unless a written prescription is requested.

5.67 Our qualitative research found that veterinary professionals were concerned that Own Brand products were limiting choice for pet owners and reducing transparency of the options available to them, thereby making it more difficult for pet owners to use alternative medications and purchase medication online with a written prescription.²⁵⁶

²⁴⁹ LVG response to RFI11, Q26(f) [REDACTED].

²⁵⁰ LVG response to RFI11, Q26(f) [REDACTED].

²⁵¹ See [About MiPet \(https://www.mipet.com/about-mipet.html\)](https://www.mipet.com/about-mipet.html) (Accessed 9 January 2025).

²⁵² LVG response to RFI11, Q26(c) [REDACTED].

²⁵³ LVG response to RFI11, Q26(a) [REDACTED].

²⁵⁴ LVG response to RFI11, Q26(d) [REDACTED].

²⁵⁵ LVG response to RFI11, Q26(b), Q26(d) [REDACTED].

²⁵⁶ Qualitative research with veterinary professionals, page 26

- (a) One vet reported that alternatives were no longer stocked at their practice following the introduction of Own Brand products.²⁵⁷ This suggests that, once an Own Brand product is introduced by an LVG, these may be used as the default option.
- (b) Some vets expressed concerns about limitations on pet owner choice and transparency of medication options specifically in relation to Own Brand products.²⁵⁸ These vets reported concerns that Own Brand products would make it harder for customers to compare prices with alternative medications and purchase medication online with a written prescription.
- (c) One vet suggested that the use of Own Brand medicines made it more difficult for customers to purchase medication online, since the different name hinders comparing prices online.²⁵⁹

5.68 In addition, we have obtained some evidence that written prescriptions are being provided to pet owners for Own Brand products. In particular, one online pharmacy [redacted] reported it has seen written prescriptions for Own Brand products which cannot be filled at an online pharmacy that stocks the equivalent (but not identical) product.²⁶⁰ This is because, as set out in the **Nature of competition** section, third-party retailers must provide a veterinary medicine that matches the medication on the written prescription (unless the written prescription is specified widely, for example a prescription by active ingredient rather than product).

5.69 When taken together, this evidence suggests that Own Brand versions of veterinary medicines may represent a barrier to pet owners purchasing medication from third-party retailers.

5.70 When asked about the commercial rationale for introducing Own Brand products, these LVGs cited their greater ability to control the cost of these medicines when considering whether to launch these products.

- (a) One LVG [redacted] told us that having a direct commercial relationship with the manufacturer enabled them to have better control over input pricing on their Own Brand products, and benefit from better pricing through contracts with manufacturers involving minimum order quantities over longer time periods.²⁶¹ [redacted] told us that cost savings from these arrangements are passed on to pet owners.

²⁵⁷ Qualitative research with veterinary professionals, page 25 and 26

²⁵⁸ Qualitative research with veterinary professionals, page 26

²⁵⁹ Qualitative research with veterinary professionals, page 26

²⁶⁰ Call note with [redacted] 30 August 2024.

²⁶¹ LVG response to RFI11, Q24 [redacted].

(b) The other [redacted] told us its Own Brand arrangements [redacted].²⁶²

5.71 Evidence available to date indicates that Own Brand products are intended to retain sales of veterinary medicines within FOPs, in part by limiting the options available to pet owners and which may have the effect of restricting competition between FOPs and third-party retailers. For example:

- (a) A [redacted] manufacturer pitch document to [redacted] refers to the Own Brand strategy as to ‘Create a high quality [redacted] exclusive brand portfolio’; ‘Retain in-practice sales and limit loss to online channel’; and ‘Contribute to category growth through driving clinical excellence and enhancing the client-clinic bond’ noting ‘Chronic meds with high loss to online channel’, elsewhere proposing separate brands for online pharmacy and FOP.²⁶³ Similar views are expressed in other [redacted] internal documents.²⁶⁴
- (b) A manufacturer [redacted] submitted that ‘[i]n some instances where [an Own Brand product] is the only product on offer to a pet owner, given the ethically restrictive ban on advertising POM-Vs to the public, it is unclear to [redacted] how the pet owner can exercise any choice or even have knowledge that other choices exist. [redacted] has no knowledge of whether these own label products are competitively priced against branded products or at all.’²⁶⁵
- (c) In more than one internal document obtained from an LVG [redacted] Own Brand products are referred to as an opportunity to protect its revenues and margins or as part of a strategy to launch an online pharmacy.²⁶⁶

5.72 We note in this regard that one of the products offered by one LVG [redacted] is [redacted], an Own Brand version of [redacted], which is available only from its [redacted] FOPs.²⁶⁷ [redacted] [redacted] is one of the common chronic medicines for which this LVG [redacted] has witnessed an increasing number of written prescriptions being requested by pet owners.²⁶⁸ The introduction of this product may be consistent with an attempt by this LVG [redacted] to limit competition between its FOPs and third-party retailers for products pet owners are more likely to request written prescriptions from vets (as set out above).

5.73 In addition, we have seen evidence that Own Brand products may influence the choices of an LVG [redacted] in relation to which veterinary medicines to purchase from manufacturers (beyond Own Brand products) and whether to designate alternative

²⁶² LVG response to RFI11, Q24 [redacted].

²⁶³ Medicine Manufacturer response to RFI1, Q10 [redacted].

²⁶⁴ Medicine Manufacturer response to RFI1, Q13 [redacted].

²⁶⁵ Medicine Manufacturer response to RFI2, Q3 [redacted].

²⁶⁶ LVG response to RFI3, Q15 [redacted].

²⁶⁷ We also note that another LVG [redacted] has an Own Brand version of [redacted] named [redacted]. See: LVG response to RFI11 [redacted].

²⁶⁸ LVG response to RFI11, Q19 [redacted].

medication as a Preferred Product. For example, in an internal document assessing whether to add a new alternative injectable anti-parasite medication to its preferred supply list, [redacted] considered the potential commercial impact on its Own Brand medications.²⁶⁹ While this injectable product was ultimately added to this LVG's preferred supply list, the document suggested the inclusion of this medicine would lead to 'some cannibalisation of their Own Brand sales' and that this loss of sales should be considered before introducing the injectable anti-parasite medication to its preferred supply list.

- 5.74 When taken together, our emerging view is that the available evidence from market participants suggests that the introduction of Own Brand products may have been to prevent pet owners from purchasing veterinary medicines from third-party retailers in order to retain these sales, and the corresponding profits, within FOPs.

Restricted access to medication made available through written prescriptions may make it more difficult for pet owners to purchase veterinary medicines through third-party retailers

- 5.75 The VMRs, require that a written prescription (among other things):
- (a) Must specify the amount of medicine that can be purchased using it;²⁷⁰
 - (b) If repeatable (that is, able to be used to purchase multiple 'batches' of the medicine), specify how many times the veterinary product may be supplied;²⁷¹ and
 - (c) Be valid for six months (or the period specified, if shorter), or, in the case of a written prescription for a controlled drug, 28 days.²⁷²
- 5.76 A vet is prohibited from prescribing 'more than the minimum amount [of veterinary medicines] required for the treatment'.²⁷³ The RCVS considers this is for the prescribing vet's clinical judgment.²⁷⁴ RCVS advice also provides that, in most cases, the quantity of controlled drugs that should be prescribed is less than 30 days' worth supply.²⁷⁵

²⁶⁹ LVG response to RFI11 [redacted]

²⁷⁰ VMRs schedule 3, paragraph 6(1)(g)

²⁷¹ VMRs schedule 3, paragraph 6(4)

²⁷² VMRs schedule 3, paragraph 6(2)

²⁷³ VMRs schedule 3, paragraph 7

²⁷⁴ RCVS website [Who is allowed to dispense POM-Vs and veterinary medicinal products prescribed under the cascade?](#)

²⁷⁵ Prescribing POM-Vs: joint guidance from the RCVS and VMD - Professionals <https://www.rcvs.org.uk/setting-standards/advice-and-guidance/controlled-drugs-guidance-a-to-z/>

- 5.77 Written prescriptions being issued for smaller amounts of medicine would increase the frictions for pet owners in purchasing medicines online and increase the costs associated with this as they may require more frequent consultations with their vet. This restricted access to medication made available through written prescriptions could occur directly, for example by vets specifying smaller amounts, or indirectly, for example by unnecessarily limiting repeatability, or the length of validity of the written prescription. This may mean that the amount of medicines a pet owner may purchase at a third-party retailer is less than that which would be dispensed at the FOP.
- 5.78 Evidence available to date indicates that the scope of a written prescription is dependent on multiple clinical factors and will vary depending on the type of drug being issued and the legal controls on that veterinary medicine. For example:
- (a) One LVG [redacted] said that the length of a prescription was at the discretion of the vet and that vets had clinical freedom in determining this.²⁷⁶ This is consistent with what we have heard from other smaller vet chains.²⁷⁷
 - (b) Other LVGs [redacted], [redacted], [redacted] submitted that they did not issue any guidance to individual practices on the length of a written prescription and would expect practices to follow RCVS and VMD guidance.²⁷⁸
 - (c) Some independent FOPs [redacted] told us that, for flea and worm treatments, it is their practice to issue written prescriptions specifying a full year's supply.²⁷⁹ As written prescriptions are valid for six months under the VMRs, we understand that this refers to a full year's supply in terms of quantity, rather than the validity period of the written prescription.
 - (d) For other conditions, pet owners will need a new prescription at least every six months but often more frequently depending on the medicine that is being issued. One independent FOP group [redacted] said that medications for a condition such as osteoarthritis are more likely to be prescribed for six months, compared to three months for medications for hyperthyroidism which require more monitoring of the animal.²⁸⁰
 - (e) In the context of the restrictions that apply to controlled drugs, an independent FOP group [redacted] told us that a particular controlled drug gabapentin can only be given for 90 days' supply.²⁸¹ This independent FOP

²⁷⁶ LVG response to Issues Statement [redacted].

²⁷⁷ Independent responses to RF11, Q24 [redacted].

²⁷⁸ LVG responses to RF11, Q17 [redacted].

²⁷⁹ Independent responses to RF11, Q24 [redacted].

²⁸⁰ Independent response to RF11, Q24 [redacted].

²⁸¹ Independent response to RF11, Q24 [redacted].

group told us that these medications cannot be offered as repeat prescriptions as online pharmacies do not accept them.

- (f) BVA, BSAVA, SPVS, and VMG said that vets typically select the length of treatment included in a written prescription based on several factors, including the specific medical needs and condition of the animal, the nature of the illness or injury, stability of the condition, and the anticipated response to treatment by the animal.²⁸²

- 5.79 While the amount of medicine included in a written prescription may be dependent on a range of clinical factors – such as the frequency with which the animal should be re-examined – FOPs told us that the amount of medicine under a written prescription when the medicine will be purchased elsewhere is no different from the amount if the medicine were dispensed directly from the practice.²⁸³
- 5.80 This is consistent with what we heard from LVGs on prescription length.²⁸⁴ None of the LVGs indicated that there are any differences between the length of a prescription whether it is dispensed in clinic or as a written prescription.
- 5.81 When taken together, the available evidence suggests that the length of a written prescription is determined by the clinical opinion of individual veterinary surgeons.
- 5.82 The length of a prescription could be a contributing factor to the barriers faced by pet owners when choosing to purchase medication from third-party retailers. This is because more frequent consultations and fees for written prescriptions would increase the cost of purchasing from a third-party retailer. However, we have not seen consistent evidence that the length of treatment in written prescriptions has been reduced to increase the incidence of pet owners having to purchase prescriptions. Our emerging view based on the evidence currently available to us is that this is not a barrier to using third-party retailers faced by pet owners.

Injectable veterinary medicines may make it more likely that pet owners will make purchases at a FOP rather than from a third-party retailer

- 5.83 As set out in the **Nature of competition** section, veterinary medicines differ in how they are administered. Some types of medication, such as those that are required to be injected to treat the animal, may be more appropriately administered by the

²⁸² [BVA, BSAVA, SPVS, and VMG IS response](#), paragraph 54.

²⁸³ Independent response to RF11, Q24 [REDACTED].

²⁸⁴ LVG responses to RF11, Q17(c) [REDACTED]. One LVG [REDACTED] told us that the decision on length of course of medicine treatment was not determined with reference to whether the medicines are dispensed at the FOP or bought elsewhere via a prescription. Data from this LVG showed [REDACTED]. See: [REDACTED].

vet (such as during a clinical procedure) or because the pet owner lacks confidence in doing so.

- 5.84 As set out above, evidence from our pet owners survey indicates that pet owners might be nervous about the process of administering medicines (where their vet could provide advice or a demonstration of this process). This suggests that some pet owners might decide to purchase medication from their FOP, rather than a third-party retailer, so that their vet or vet nurse can administer the medicine, at least for the first time.
- 5.85 FOPs – as commercial vet businesses – may have the commercial incentive to act on this concern by prescribing medications that pet owners cannot (or would prefer not to) administer to their pets themselves. This would represent a barrier pet owners must overcome when attempting to use third-party retailers for veterinary medicines as they may feel less able to request a written prescription for a product that is injectable rather than those available as tablets or liquid suspensions.
- 5.86 We have seen mixed evidence to date about whether FOPs have and/or act on this commercial incentive.
- 5.87 Several LVGs told us that the format of medicine prescribed is a clinical decision which they do not seek to influence.
- (a) One LVG [redacted] told us that the decision on use of injectables over other formats is made by the prescribing vet, based on patient clinical needs.²⁸⁵
 - (b) Another LVG [redacted] said the choice to use an injectable was a clinical decision based on factors such as ease of administration, compliance, financial limitations and the presenting case condition.²⁸⁶
 - (c) One other LVG [redacted] confirmed that it does not give preferred status to any injectable over non-injectable medicine to avoid restricting its vets' clinical freedom in providing contextualised care.²⁸⁷
- 5.88 Some FOPs may prefer alternative formats of medicines instead of injectables. For example, one LVG [redacted] told us that due to the discomfort of an injection and associated wastage, it is rare that [redacted] would recommend an injectable product for use by practices where a clinically appropriate oral alternative exists.²⁸⁸ Another LVG [redacted] provided us with an example of an injectable antibiotic that it discourages vets from using despite its convenience, as they encourage responsibly reducing,

²⁸⁵ LVG response to RFI11, Q20 [redacted]

²⁸⁶ LVG response to RFI11, Q20 [redacted]

²⁸⁷ LVG response to RFI11, Q20 [redacted]

²⁸⁸ LVG response to RFI11, Q21 [redacted]

refining and replacing its use to preserve antibiotic effectiveness against antimicrobial resistance.²⁸⁹

- 5.89 This is consistent with our qualitative research with veterinary professionals, where vets told us they consider different formats of medications when prescribing, discussing their respective prices and benefits or drawbacks with pet owners.²⁹⁰ They often made decisions about which format to recommend based on circumstances of the pet owner or pet, such as the pet owners' mobility and ability to administer medication regularly.
- 5.90 On the other hand, we have also seen evidence that there is awareness among market participants that injectables are more likely to be administered within a FOP and that there may be a financial incentive for FOPs to prescribe injectables over alternative forms of medication as they generate more visits by pet owners or as they limit competition with third-party retailers. For example:
- (a) One manufacturer [REDACTED] told us that the injectable versions of two medicines would be administered by a vet rather than the consumer (unlike the tablet version);²⁹¹
 - (b) An LVG [REDACTED] internal document referred to the fact that [REDACTED].²⁹²
 - (c) An internal training document from one LVG [REDACTED] highlighted the clinical value in repeat consultations when using a new injectable medication.²⁹³ The document also notes that additional consultations through the use of this injectable medication would result in additional revenues from repeat visits by pet owners.
 - (d) [REDACTED].²⁹⁴
 - (e) [REDACTED].²⁹⁵
 - (f) Another LVG [REDACTED] internal document on opportunities for the company highlights that manufacturers are 'moving to more injection-based medication to mitigate online pharmacy threat'.²⁹⁶
- 5.91 While injectable medications may have significantly higher mark ups than other forms of medication, we understand that this may represent the greater costs

²⁸⁹ LVG response to RF111, Q20 [REDACTED]

²⁹⁰ Qualitative research with veterinary professionals, page 24 and page 33

²⁹¹ Medicine Manufacturer response to RF12 [REDACTED]

²⁹² LVG response to RF13, Q24, [REDACTED]

²⁹³ LVG response to RF111 [REDACTED]

²⁹⁴ LVG response to RF13, Q46 [REDACTED]

²⁹⁵ LVG response to RF13, Q46 [REDACTED]

²⁹⁶ LVG response to RF13, Q15 [REDACTED].

associated with the storage and dispensing of these veterinary medicines as well as the greater likelihood that these products will be discarded. In particular:

- (a) An LVG [X] told us that its average weighted mark-up on manufacturer list price for injectables is [100-200%], and on dispensed medicines is [90-100%]; it told us this is because open multi-injectable bottles must be discarded after 28 days.²⁹⁷ As set out in the **Outcomes of competition** section, as LVGs can on average purchase medicines significantly below the manufacturer list prices (when considering wholesale discounts and manufacturer rebates), the 'true' mark-up on purchase costs will be far greater than these estimates based on the manufacturer list prices.
- (b) In an internal document, an LVG [X] states injectable mark-ups range from 100-200% to 800-900% based primarily on level of anticipated wastage.²⁹⁸ It is not clear whether this mark-up is on manufacturer list price, wholesale costs to FOPs owned by this LVG, or on the purchase cost when considering both wholesale discounts and manufacturer rebates (or the 'net net' price).

5.92 We have also seen examples of LVGs adding injectable options to their preferred supply lists for medicines in recent years.²⁹⁹ Consistent with their submissions set out above, the designation of these injectables as a Preferred Product related to their greater efficacy and the longer effect of treating certain conditions with injectables. We note that some of these products were marketed to LVGs and independent FOPs as being able to retain sales within a veterinary practice and to generate additional visits by pet owners.

5.93 When taken together, it appears to us that the available evidence suggests a range of factors may contribute to the use of injectable medicines by FOPs.

5.94 Some evidence we have seen to date suggests that a move towards injectable veterinary medicines by FOPs may reflect improvements in their greater efficacy, with pet owners offered the opportunity for other forms of medication based on the judgement of their vet. In addition, to the extent the use of injectable medicines involves greater oversight by vets and/or increased compliance with the treatment

²⁹⁷ LVG response to RF12, Q8 [X].

²⁹⁸ LVG response to RF13, Q51 [X]. We note this LVG [X] submitted that such a level of mark-up may arise in some cases because of the way medicines are used. For example, if a certain medication is only available in large volume vials but used infrequently, it could be anticipated that up to 90% of a product may be disposed of. In that sort of example, 1ml of a product in a 10ml bottle may be used on average in a 28-day period, and the remaining 9ml must be disposed of. The [800-900%] mark-up of the 1ml administered may in that case be seen as akin to a [90-100%] markup on the total volume cost. As set out in the **Outcomes of competition** section, we note that setting retail prices above incremental costs of supply allows FOPs to recover some other costs which may contribute to the price of veterinary medicines. These other costs may include wastage costs for medicines, as explained here by this LVG.

²⁹⁹ LVG responses to RF111, Q20 [X]. One LVG [X] told us injectable options would not be added to their preferred supply lists where the main alternative is not injectable or the existing preferred option is not injectable. Another LVG [X] said that injectable options would be added alongside non-injectable options.

regimen by owners (as set out above), this may have a positive effect on animal welfare.

- 5.95 We have also seen that the use of injectables may act on pet owners' nervousness about giving medicines to their pet, such that they may prefer to buy medicines from their FOP rather than from third-party retailers. Injectable medication could therefore be more profitable for FOPs when including repeat consultation fees as well as the sales of these veterinary medicines. This may result in FOPs migrating towards injectable forms of medication.
- 5.96 We will continue to explore this concern as part of our investigation and welcome views on this issue in response to this working paper

Summary of our emerging thinking

- 5.97 This section sets out our current assessment of whether pet owners might be overpaying for veterinary medicines because of their lack of awareness of the options available to them at the point of sale in FOPs and any conduct of FOPs which may limit the competitive constraint on FOPs from third-party retailers.
- 5.98 Based on the evidence set out above, we are currently concerned that pet owners may be overpaying for veterinary medicines when they purchase products directly from their FOP rather than third-party retailers, in particular online pharmacies.
- (a) A substantial proportion of pet owners are not aware they can purchase veterinary medicines from third-party retailers with a prescription, meaning that they may not be effectively informed of their ability to do so by their FOP. The lack of effective promotion of written prescriptions to pet owners within FOPs may be one of many factors that explain why only a small proportion of pet owners (16%) purchase medication from a third-party retailer with a written prescription provided by a vet at their FOP.
 - (b) In addition to being unaware of their ability to request a written prescription or how to purchase from a third-party retailer, pet owners face several barriers which prevent them from purchasing medication from third-party retailers. These barriers include the level of prescription fees charged by FOPs and the use of injectable medication available at FOPs which pet owners would prefer not to administer to their pets themselves.
 - (c) The introduction of Own Brand products by CVS and IVC might also potentially represent a barrier to pet owners purchasing medication from third-party retailers. This is because pet owners would first need to find information, from a trusted source, on the available alternatives, which would have different product names and other product characteristics, before

assessing whether to accept the Own Brand version of a veterinary medicine from their vet. The available evidence from market participants suggests that the introduction of Own Brand products may serve to retain sales, and the corresponding profits, within FOPs and to prevent pet owners from purchasing veterinary medicines from third-party retailers.

- 5.99 This evidence suggests that the price of veterinary medicines offered by third-party retailers does not impact the choice made by pet owners to purchase prescription medication at their FOP. As a result of this weak response by pet owners to the competitive offerings of third-party retailers in relation to veterinary medicines, FOPs may be able to set prices for veterinary medicines with little regard to competition from third-party retailers. FOPs may have the incentive and ability to act on this weak response by not effectively promoting information to pet owners about their ability to purchase medication through third-party retailers or by prescribing medication that reduces the likelihood that pet owners will request a written prescription.
- 5.100 The limited competition between FOPs and third-party retailers may particularly affect the prices of non-routine medication. We have observed a difference in purchasing behaviour among pet owners for the purchase of one-off medication and on-going medication, which suggests that pet owners may be more willing to purchase on-going medication than one-off medication from third-party retailers. On-going medication may be more readily comparable because pet owners have greater opportunity to acquire the information needed to shop around for these types of veterinary medicines as well as being better able to measure the outcome of the treatment.
- 5.101 Even if some pet owners were to start using, or increase their use of, third-party retailers, FOPs may still find it profitable to charge high medicines prices. This may be because of high margins earned from sales to other pet owners who may continue to have a preference to purchase medication from their FOP or face difficulties in effectively comparing veterinary medicines across retail sales channels. We intend to explore this concern as part of our investigation and welcome views on this issue in response to this working paper.

6. Negotiating power and its consequences for competition

- 6.1 Our emerging view is that, in a well-functioning market, we would expect FOPs and third-party retailers to compete on the price of veterinary medicines, including those sold to pet owners as distinct products as well as part of a bundled offerings (such as vaccinations and pet plan products). FOPs and third-party retailers would be able to negotiate competitive prices with their medicine suppliers, either directly or through membership of buying groups, and be able to access similar commercial terms for a given volume of sales. Prices of veterinary medicines would be closely linked to the cost of supply. This would mean that efficiencies of certain business models which lead to cost savings in relation to veterinary medicines would be passed on to pet owners.
- 6.2 This suggests that the extent to which FOPs and third-party retailers can compete on the price of veterinary medicines in a well-functioning market will depend, among other factors, on their ability to negotiate competitive prices with their medicine suppliers. The purchase costs of LVGs, independent FOPs, and online pharmacies will therefore depend on their respective negotiating power when purchasing veterinary medicines from manufacturers and wholesalers.
- 6.3 In this section, we assess what impact differences in negotiating power across FOPs and third-party retailers could have on competition between FOPs as well as between FOPs and third-party retailers in relation to the supply of veterinary medicines.
- 6.4 Differences in negotiating power between FOPs as well as between FOPs and third-party retailers do not mean that competition in the supply of veterinary medicines is not working well. FOPs and third-party retailers negotiating lower purchase costs with their suppliers and passing these efficiencies on to pet owners would be an indicator that there is effective competition between FOPs as well as between FOPs and third-party retailers. The ability of some FOPs and some third-party retailers to negotiate lower purchase costs than others, where these lower purchase costs reflect efficiencies of certain business models (such as a greater volume of sales or a wider scope of their activities), is not in itself a feature of the market that would adversely impact competition.
- 6.5 We are currently concerned, however, that cost savings from these efficiencies are not being passed on to pet owners to any significant extent, if at all. As set out in **Outcomes of competition**, the available evidence suggests that pet owners purchasing medicines from a FOP pay substantially more for a product than its purchase cost and that the sale of medicines is a highly profitable activity for FOPs. While we plan to continue to develop our evidence base on the outcomes of the competitive process, there appears to us to be important evidence of

weaker competition between FOPs, as well as between FOPs and third-party retailers, in the supply of veterinary medicines than we would expect in a well-functioning market.

- 6.6 In earlier sections, we set out our emerging thinking on why competition between FOPs, as well as between FOPs and third-party retailers, may be weakened by the weak response of pet owners to the competitive offerings of FOPs and the actions of FOPs which make it difficult for pet owners to compare veterinary medicines between FOPs and third-party retailers. Only if these factors have been addressed, and the efficiencies of different business models that lead to cost savings in the supply of veterinary medicines are passed on to pet owners, would the consequences of negotiating power for competition become relevant.
- 6.7 Under these circumstances, negotiating power may have consequences for competition where some vet businesses face barriers to negotiating competitive prices with their suppliers. If pet owners shop around to take advantage of better prices for veterinary medicines, vet businesses with more efficient business models would be better able to attract pet owners by passing through the lower purchase costs they are able to negotiate with their suppliers. Other vet businesses could lose sales volumes unless they are able to strengthen their negotiating position with suppliers, such as by becoming a member of a buying group to obtain larger manufacturer rebates and lower their purchase costs. Barriers which prevent these vet businesses from strengthening their negotiating position would mean that competition on the price of veterinary medicines could be limited to a small number of vet businesses.
- 6.8 Our concern is therefore premised on whether some vet businesses face barriers to negotiating competitive prices with their suppliers. This is the focus of this section, which is structured as follows:
- (a) We first describe the negotiating position of LVGs in relation to manufacturers and wholesalers, including the use of Preferred Products to obtain larger rebates from manufacturers and discounts secured from wholesalers.
 - (b) We explore the negotiating position of buying groups and their members, in particular the differences in manufacturer rebates available to members of different types of buying groups.
 - (c) We provide an overview of the negotiating position of FOPs and third-party retailers that are not members of buying groups.
 - (d) We go on to provide case studies on the manufacturer rebates obtained by FOPs and third-party retailers on a select number of veterinary medicines,

which we have used to illustrate the difference in purchase costs across different types of FOPs and third-party retailers.

Negotiating position of LVGs

- 6.9 Over recent years, there has been a rapid expansion of LVGs. LVGs now own and operate most FOPs in the UK (around 60%). In some cases, LVGs have acquired businesses which sell related services. Given this, it might be expected that at least some LVGs could have stronger negotiation positions than other vet businesses (including both independent FOPs and third-party retailers, such as independent online pharmacies) in relation to manufacturers and wholesalers.
- 6.10 The scale and scope of LVGs differ. IVC is the largest supplier with over 900 practices, and Linnaeus is the smallest, with around 160 practices. Three LVGs – CVS, IVC, and VetPartners – own and operate the four largest online animal pharmacies in the UK. One LVG – CVS – also owns and operates a buying group.

Negotiations between LVGs and manufacturers are influenced by the size of LVGs and their purchasing options for medicines

- 6.11 As set out in the **Nature of competition** section, the most important factor in the procurement of veterinary medicines from manufacturers is the level and structure of rebates agreed. Rebates are linked to the anticipated or historic volume of purchases, typically at a product (or a product category) level, and partly reflect the efficiencies achieved by manufacturers when supplying a single purchaser. The rebates agreed between manufacturers and their customers are applied as a percentage discount on the list price for a product set by the manufacturer.
- 6.12 Most manufacturers we contacted as part of our investigation viewed rebates as an important factor when competing with other manufacturers to win and retain volumes from LVGs.
- (a) One manufacturer [redacted] told us that rebates were a key metric of competition between manufacturers in the supply of veterinary medicines to FOPs and third-party retailers.³⁰⁰
- (b) One other manufacturer [redacted] noted that the tender processes carried out by LVGs could place downward pressure on manufacturer pricing through improved (and additional) rebate offerings.³⁰¹

³⁰⁰ Medicine Manufacturer response to RF11, Q2(a) [redacted]

³⁰¹ Medicine Manufacturer response to RF11, Q2(c) [redacted]

(c) Two manufacturers [redacted] told us that the negotiating strength of LVGs place these manufacturers under pressure to provide additional rebates to win or retain business with LVGs.³⁰²

6.13 LVGs told us that the rebates it obtains from manufacturers could be a significant proportion of its purchase costs of medicines overall but that rebates varied across the products available at their FOPs. The average rebates reported by LVGs were between [20-30%] [redacted] for one LVG [redacted] and [50-60%] [redacted] for another [redacted] of manufacturer list prices.³⁰³

6.14 Some LVGs said that, when they have a choice between equivalent products offered by different manufacturers, this could increase the rebates available from manufacturers and that they switch between them to obtain larger rebates from manufacturers.

(a) One [redacted] said the level of rebates offered by and agreed with manufacturers will depend on whether there are alternative suppliers of the veterinary medicines they produce, with a greater availability of alternatives leading to manufacturers offering larger rebates.³⁰⁴

(b) Another [redacted] listed ten examples of where it had switched manufacturers over the last three years and told us almost all were for a net price improvement and the products from the manufacturers it had switched to provided clinical equivalence, if not a clinical improvement, on the products it had previously procured.³⁰⁵

(c) One other LVG [redacted] also told us it had switched to obtain better prices and costs savings, but also referenced as significant factors the availability and consistency of supply, suppliers' offering of products in accordance with clinical governance considerations, and availability of non-faulty product packaging.³⁰⁶

6.15 Some LVGs can also obtain larger rebates from manufacturers by the volumes sold through FOPs in their group with volumes sold by the online pharmacies or buying groups they own and operate.

³⁰² Medicine Manufacturer response to RFI1, Q11(a), 11(b) [redacted].

³⁰³ LVG responses to RFI1, Q14,16 [redacted].

³⁰⁴ LVG response to RFI3, Q48 [redacted].

³⁰⁵ LVG response to RFI11, Q16 [redacted].

³⁰⁶ LVG response to RFI11, Q16 [redacted].

- (a) One LVG-owned pharmacy [redacted] told us that suppliers consider the total volumes purchased by [redacted], [redacted], and [redacted] as a combined purchase made by the same entity [redacted].³⁰⁷
- (b) Another LVG-owned online pharmacy [redacted] confirmed that it purchased in line with the LVG's [redacted].³⁰⁸

6.16 When taken together, the available evidence suggests that at least some LVGs may have a strong negotiating position relative to manufacturers for at least some veterinary medicines, particularly for products that are offered by multiple manufacturers. This is because of their larger scale than other vet businesses (such as buying groups, independent FOPs, and third-party retailers) as well as the greater scope of their activities (particularly for LVGs such as IVC, CVS, and VetPartners that own and operate online pharmacies).

LVGs appear to use Preferred Products to obtain larger rebates

6.17 As set out in the **Nature of competition** section, our emerging view is that the veterinary medicines available to purchase at a given FOP may be influenced by the selection of Preferred Products. LVGs and independent FOPs told us that the selection of Preferred Products does not prevent alternatives being prescribed by vets within a FOP based on their clinical judgement.³⁰⁹

6.18 Preferred Products allow LVGs to coordinate the purchases of their FOPs and other veterinary practices so that the LVG can increase the volume of purchases and the level of rebates agreed with the manufacturer for a given veterinary medicine. By pooling these purchases into one product, rather than spreading them across a range of alternatives, LVGs can lower the purchase price paid for these veterinary medicines.

6.19 These Preferred Products are likely to be the products available to purchase at a given FOP and are those typically prescribed to pet owners. In our qualitative research, most veterinary surgeons reported that they were able to order 'off-list' if there was a clinical reason to do so, but friction was sometimes experienced in doing this.³¹⁰

6.20 Given this evidence, it appears to us that the selection of Preferred Products may help LVGs to obtain larger rebates from manufacturers by directing their FOPs

³⁰⁷ Online Pharmacy response to RFI Q4 [redacted].

³⁰⁸ Online Pharmacy response to RFI1, Q4(a) [redacted].

³⁰⁹ LVG [redacted] responses to RFI2, Q19,22 and Independents' [redacted] response to RFI1, Q17 [redacted].

³¹⁰ Qualitative research with veterinary professionals, page 27.

towards the purchase and prescribing of one medication instead of other clinical alternatives.

LVGs appear to have obtained an increasing share of the wholesalers' discount

- 6.21 As set out in the **Nature of competition** section, wholesalers typically obtain a 15% discount on the manufacturer list price when purchasing medicines from manufacturers. We understand that wholesalers pass on the majority of their discount from manufacturers to their customers.
- 6.22 This means that, while the rebates agreed between manufacturers and LVGs have the largest direct impact on the price paid by LVGs for a given product, the discounts available to LVGs from wholesalers also reduce their purchase costs for veterinary medicines. These wholesaler discounts would be spread across all purchases made through a wholesaler rather than limited to a category of products.
- 6.23 We were told by wholesalers that the increasing negotiating power of LVGs has resulted in wholesalers retaining less of the discount they obtain from manufacturers than in previous years and that LVGs can use their size to negotiate lower purchase costs. For example:
- (a) One wholesaler [redacted] stated that margins have deteriorated over the past 10 years for wholesalers, despite increasing revenues.³¹¹ This is because manufacturers and LVGs expect the wholesaler to fully pass on the discount it obtained from manufacturers to these customers.³¹²
 - (b) Two wholesalers [redacted] told us that almost all the discount they obtained on manufacturer list prices was now passed on to their customers.³¹³
 - (c) Another wholesaler [redacted] highlighted that LVGs can leverage their size to negotiate better terms due to their importance to a wholesaler's business.³¹⁴ This wholesaler noted that the recent loss of one LVG as a customer [redacted].
- 6.24 Consistent with this, one LVG [redacted] told us it believes that it has considerable negotiating power with respect to wholesalers due to the value and volume of its purchases.³¹⁵
- 6.25 We have found that wholesalers pass on most of the discount on list prices they receive from manufacturers to LVGs and that LVGs have switched between

³¹¹ Wholesaler response to RF11, Q1(a) [redacted].

³¹² Wholesaler response to RF11, Q4(a) [redacted].

³¹³ Wholesaler responses to RF11, Q4,6 [redacted].

³¹⁴ Wholesaler response to RF11, Q1(c) [redacted].

³¹⁵ [redacted] LVG response to RF111, Q13, November 2024.

wholesalers in order to obtain lower purchase costs from wholesalers. For example:

- (a) One wholesaler [redacted] told us that it offers between 12% and 14% discounts on manufacturers' list prices.³¹⁶
- (b) One LVG [redacted] told us [redacted].³¹⁷
- (c) The same LVG [redacted] told us [redacted] because it offered lower prices, and its discounts required lower purchase volumes.³¹⁸

6.26 When taken together, this evidence appears to suggest to us that LVGs hold a strong negotiating position in relation to wholesalers. LVGs are large and important customers to wholesalers, which means that wholesalers have a strong incentive to retain the business of LVGs. LVGs can therefore encourage wholesalers to pass most (if not all) of the discount they obtain from manufacturers through to them.

Negotiating position of buying groups and their members

6.27 As set out in the **Nature of competition** section, manufacturer rebates are based on purchase volumes, which are typically set at a product (or a product category) level, and reflect the efficiencies achieved by manufacturers when supplying a single purchaser. We might therefore expect that independent FOPs and third-party retailers would be less able to benefit from manufacturer rebates to the same extent as those with greater volumes (such as an LVG).

Buying groups allow independent FOPs and third-party retailers to increase their negotiating power with manufacturers

6.28 We have found that independent FOPs and third-party retailers of veterinary medicines have joined or formed buying groups to strengthen their negotiating position with manufacturers. Most independent FOPs and independent online pharmacies from which we gathered information as part of our investigation told us that they were members of a buying group.³¹⁹

6.29 As set out in the **Nature of competition** section, the purpose of buying groups is to use the collective buying power of their members to negotiate and obtain larger

³¹⁶ [redacted].

³¹⁷ [redacted].

³¹⁸ [redacted].

³¹⁹ For example: RFI responses from independent vet practices and independent online pharmacies [redacted], Q17, Q6, 2 October 2024, 24 September 2024, 10 October 2024, 2 October 2024, 25 September 2024, 3 October 2024, 23 September 2024, 1 October 2024, 26 September 2024, 20 August 2024, 27 August 2024.

volume rebates with manufacturers than would be available to individual members acting alone. Independent FOPs and independent online pharmacies that choose to form or join an existing buying group could therefore strengthen their negotiating position, thereby lowering the purchase price they pay for veterinary medicines and reducing the administrative costs associated with procurement from manufacturers.

The negotiating power of some buying groups is comparable to some LVGs, but may be in decline

- 6.30 Buying groups contacted as part of our investigation [redacted] oversee between £1m and £145m in purchases by their members each year.³²⁰ We have found that larger buying groups have purchase volumes for some veterinary medicines that are equivalent to or greater than some LVGs (as shown in our case studies below).
- 6.31 Two buying groups [redacted] are part of a wider group that provides additional services to independent vets beyond the administration of veterinary medicines procurement.³²¹ Some buying groups are part of the same group as wholesalers ([redacted], [redacted]), or run by LVGs (CVS are in the same group as MiVetClub and VetShare), or run by the independent veterinary practices that are their members ([redacted]).³²²
- 6.32 While buying groups may be likely to strengthen the negotiating position of their members, it also appears that their negotiating power has declined in recent years and may be lower than that of some LVGs. A manufacturer [redacted] confirmed this, noting that the negotiating power of buying groups has declined as LVGs have expanded.³²³ We understand that this decline is a consequence of the increasing share of FOPs that are owned by LVGs, with LVGs now owning and operating more than 60% of FOPs in the UK, as well as the wider scope of at least some LVGs' activities (including online pharmacies and buying groups). We intend to explore this further as part of our investigation.

Buying groups appear to use Preferred Products to obtain larger rebates

- 6.33 Some buying groups give complete clinical freedom to their members to choose veterinary medicines and negotiate with manufacturers to offer a rebate on all products. One buying group [redacted] told us its focus is on empowering its members to

³²⁰ [redacted] RFI Response, Q1, 14 August 2024; [redacted] RFI Response, Q1, 8 August 2024; [redacted] RFI Response, Q1, 7 August 2024; [redacted], Q1, 19 August 2024; and [redacted] RFI Response, Q7, 08 August 2024.

³²¹ [redacted] RFI Response, Q1, 19 August 2024; [redacted] RFI Response, Q1, 08 August 2024.

³²² [redacted] RFI Response, Q1, 8 August 2024; [redacted] RFI Response, Q7, 15 August 2024; [redacted] RFI Response, Q7, 13 August 2024; [redacted] RFI, Q1, 14 August 2024; and [redacted] RFI Response, Q1, 7 August 2024.

³²³ [redacted] Q9, 13 September 2024.

make choices through price transparency.³²⁴ In some cases, all members of the buying group are given complete clinical freedom ([REDACTED], [REDACTED], [REDACTED]).³²⁵ In others, there are membership options offered by buying groups that provide this freedom ([REDACTED], [REDACTED]).³²⁶

6.34 Other buying groups told us that they offer a range of Preferred Products. For example:

- (a) A buying group [REDACTED] has a membership option [REDACTED] that requires members to purchase and prescribe certain veterinary medicines as their first choice, although it does not restrict the use of alternatives should the clinical need arise.³²⁷
- (b) Members of another buying group [REDACTED] vote to determine the star rating of a proposed product. Any product given three stars should be prescribed in preference to alternative products that could also treat the same health condition in a pet.³²⁸
- (c) One other buying group MiVetClub owned and operated by CVS encourages its members to use this LVG's 'dedicated and preferred product lists'.³²⁹ However, use of those lists is not actively managed, monitored or enforced by this buying group. This buying group also told us its members are free to open additional accounts to purchase from manufacturers not included on the preferred product list without informing the buyer group.
- (d) Another buying group [REDACTED] has a membership option [REDACTED] that influences the decisions made by members at brand level where they may select a preferred supplier, but it never prevents the use of alternatives if there is a clinical need.³³⁰

6.35 As with LVGs, Preferred Products allow buying groups to coordinate the purchases of their members so that they can collectively increase the purchase volume and the level of rebates agreed with the manufacturer for a given veterinary medicine. By pooling these purchases into one product, rather than spreading them across a range of alternatives, buying groups that designate Preferred Products can lower the purchase price paid by their members for these veterinary medicines.

³²⁴ [REDACTED] RFI Response, Q7, 08 August 2024.

³²⁵ [REDACTED] RFI Response, Q7, 13 August 2024; [REDACTED] RFI Response, Q7, 15 August 2024; and [REDACTED] RFI Response, Q7, 08 August 2024.

³²⁶ [REDACTED] RFI Response, Q7, 8 August 2024; and [REDACTED] Q7, 19 August 2024.

³²⁷ [REDACTED] RFI Response, Q7, 8 August 2024.

³²⁸ [REDACTED] RFI Response, Q7, 7 August 2024.

³²⁹ [REDACTED] RFI, Q7, 14 August 2024.

³³⁰ [REDACTED] Q7, 19 August 2024.

- 6.36 However, in contrast to LVGs, the monitoring of Preferred Products by buying groups appears to be relatively weak due to lower visibility and control over the orders made by members. For example, one [REDACTED] told us that adherence to its list of Preferred Products varies ([from [REDACTED] to [REDACTED]]) depending on the category of medication.³³¹ Another [REDACTED] told us that its members are encouraged to use its list of Preferred Products for 80% of their purchases, although this is not monitored or enforced.³³²
- 6.37 The available evidence indicates that buying groups that select Preferred Products can obtain larger rebates from manufacturers because of the efficiencies this generates for manufacturers when winning or retaining business. For example:
- (a) One manufacturer [REDACTED] told us that buying groups where members adhere to a specific list of brands can guarantee manufacturers larger volumes and the buying groups are therefore able to negotiate considerably better levels of rebates and obtain lower purchase costs for their members.³³³ In contrast, buying groups without a specific list of brands offer no guaranteed volumes to manufacturers, thereby limiting their negotiating power which may be reflected in the level of rebates and the purchase costs they obtain for their members.
 - (b) A document provided by another manufacturer [REDACTED] states that buying groups with Preferred Products reduce or eliminate the need for this manufacturer to invest in promoting its products to members.³³⁴ In contrast, buying groups without Preferred Products will require this manufacturer to send sales teams to FOPs in order to influence and discuss the clinical benefits of its products with vets.
 - (c) Two buying groups ([REDACTED], [REDACTED]) said that their members who chose to select from Preferred Products were able to obtain larger rebates from manufacturers than those who did not.³³⁵
- 6.38 When taken together, the available evidence suggests that buying groups do strengthen the negotiating position of their members, thereby lowering the purchase price they pay for veterinary medicines and reducing the administrative costs associated with procurement from manufacturers. Buying groups which select Preferred Products have stronger negotiating positions than those that do not as they are better able to secure purchase volumes from their members, which

³³¹ [REDACTED] RFI Response, Q7, 19 August 2024.

³³² [REDACTED] RFI Response, Q7, 14 August 2024.

³³³ [REDACTED] RFI response Q9, 13 September 2024.

³³⁴ [REDACTED] Manufacturer internal document.

³³⁵ [REDACTED] RFI Response, Q1, 19 August 2024; [REDACTED] RFI Response, Q1, 8 August 2024.

generate greater efficiencies for manufacturers that they can pass on to FOPs and third-party retailers through lower purchase costs for medicines.

It is not clear whether buying groups are able to improve the discounts available from wholesalers

- 6.39 In relation to wholesalers, there is a range of approaches across the buying groups but no evidence that they impact the purchase costs of medicine prices for their members. For example, one buying group [REDACTED] told us that they do not negotiate wholesaler discounts on behalf of their members but recommend using a wholesaler ([REDACTED]) due to the service offering it provides.³³⁶
- 6.40 While some buying groups are owned by wholesalers (MWI, Premier), we have seen no evidence that this influences the discounts they offer. For example, one such buying group [REDACTED] has a membership option [REDACTED] which requires its members to purchase from its own wholesaler.³³⁷ This buying group told us that medicine prices tend to be similar across all wholesalers in its experience.
- 6.41 Although we currently understand that the rebates agreed with manufacturers have the largest direct impact on the price paid by FOPs and third-party retailers with material volumes of sales, we intend to explore the discounts from wholesalers available to members of buying groups as part of our investigation.

Negotiation position of independent FOPs and third-party retailers

- 6.42 While most independent FOPs and third-party retailers from whom we gathered information as part of our investigation told us that they were members of a buying group, some were not or had decided against joining those with Preferred Product lists. For example:
- (a) One independent FOP [REDACTED] told us that it was not a member of a buying group as it felt that buying groups distort the market and that they reduce competition.³³⁸
 - (b) [REDACTED] buying group [REDACTED] said approximately a third of its members choose a membership option without a Preferred Product list.³³⁹

³³⁶ [REDACTED] RFI Response, Q6, 19 August 2024.

³³⁷ [REDACTED] RFI Response, Q6, 8 August 2024.

³³⁸ [REDACTED] response to RFI.

³³⁹ [REDACTED] RFI Response, Q1, 8 August 2024.

(c) Two online pharmacies [X] purchase veterinary medicines through a buying group which does not use preferred lists [X].³⁴⁰

6.43 These independent FOPs and third-party retailers may therefore not be able to obtain the same level of manufacturer rebates available to members of buying groups.

6.44 We have explored whether the cost of joining buying groups with Preferred Products are comparable to options without Preferred Products, and it appears the costs of memberships do not differ to any material degree. For example, one buying group [X] charges [X] commission on negotiated rebates, along with a small membership fee, which does not vary between membership options that do and do not have Preferred Products.³⁴¹ Another [X] charges an fee of between 1% and 2.5% of wholesaler purchases for its flexible membership option and a fixed 2% for its membership option with Preferred Products.³⁴²

6.45 We intend to explore the reasons why some FOPs and third-party retailers do not join buying groups with Preferred Products or, in some cases, decide not to join a buying group at all.

Case studies on discounts and rebates

6.46 To understand whether some FOPs and third-party retailers can purchase veterinary medicines at a materially lower cost than others because of their stronger negotiation positions with wholesalers (in relation to discounts) and manufacturers (in relation to rebates), we have selected three case study medicines to illustrate the difference in purchase costs across different types of FOPs and third-party retailers.

6.47 These case study medicines have been used to explore how setting rebates varies by manufacturer, by product and by customer type. We chose three different products (a parasiticide, a pain management injection, and a vaccine), made by three different manufacturers to represent the differences in rebates available to LVGs, independent FOPs, and third-party retailers. These case studies also help us understand the challenges involved in analysing rebates across different products given each has a specific set of competitive and commercial pressures.

6.48 As set out in the **Nature of competition** section, the administration of rebates differs by manufacturers. While rebates are linked to the anticipated or historic volume of purchases made by manufacturers' customers typically at a product (or

³⁴⁰ [X] RFI Response, Q5, 26 September 2024; and [X] RFI Response, Q5, 20 August 2024

³⁴¹ [X] RFI response, Q1, 19 August 2024.

³⁴² [X] RFI Response, Q1, 8 August 2024.

a product category) level, some manufacturers also consider purchases across a portfolio of products. This prevents us from directly comparing the rebates obtained for the products we have chosen for these case studies. We instead look at the level of discounts and rebates obtained by the ten largest customers by spend on each product to assess our current understanding of differences in the purchase costs of LVGs, buying groups and their members, and independent FOPs and third-party retailers.

Case study one: [REDACTED] [REDACTED]

6.49 [REDACTED] This product can be administered in a vet practice or dispensed for pet owners to administer themselves.

[REDACTED] is important to [REDACTED] and is a commonly used type of medication

6.50 [REDACTED].³⁴³

6.51 There is a wide range of available alternatives in the parasiticide category. This includes different branded alternatives in the same product category as well as options with different active ingredient and formulations, for example [REDACTED], [REDACTED] and [REDACTED].³⁴⁴

Discounts and rebates obtained by customers on [REDACTED] are large and increase with purchase volumes

6.52 As set out above, we understand that when there are more available alternatives, competitive pressure on manufacturers is greater so they may offer higher rebates in order to win business. As such, we would expect that customers for [REDACTED] would experience relatively high rebates.

6.53 Table 6.1 below illustrates the ten largest customers for gross spend as well as their percentage discount and rebate on this spend.³⁴⁵ [REDACTED]

³⁴³ [REDACTED] RFI response, Q1, 17 September 2024.

³⁴⁴ [REDACTED] RFI response, Q1, 17 September 2024.

³⁴⁵ [REDACTED] RFI2 response, Q2, 22 November 2024

Table 6.1: Discounts and rebates for [REDACTED] obtained by top ten customers

Customer name	Customer type	Spend at list price	% discount and rebate
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis of data provided by [REDACTED]

6.54 The relative size of rebates shown in Table 6.1 are consistent with our expectations for this product given there are several alternatives available on the market. The range of discounts and rebates varies between [REDACTED] and [REDACTED] for these top ten customers.

6.55 Table 6.1 also shows that the level of rebates appears to increase with the purchase volumes of customers and that buying groups can obtain similar levels of rebates to some LVGs by coordinating purchases across their members. In particular:

- (a) [REDACTED]
- (b) [REDACTED]
- (c) [REDACTED]
- (d) [REDACTED]

6.56 When taken together, this evidence supports our understanding that purchase volumes are a significant factor in the size of rebates offered by manufacturers.

The selection of Preferred Products by LVGs may influence the level of rebate obtained by some customers

6.57 Although our analysis is consistent with our emerging view that purchase volumes are the main factors leading to larger rebates, [REDACTED].³⁴⁶

³⁴⁶ [REDACTED] RFI2 response, Q3, 22 November 2024.

6.58 [REDACTED]^{347 348}

6.59 This example shows that, in addition to Preferred Products being used to pool volumes and coordinate purchases across FOPs owned by LVGs, the selection of Preferred Products may place further pressure on manufacturers to agree more favourable terms with LVGs given their strong negotiating position.

The rebates available to buying groups depends on the use of Preferred Products as well as the administration of purchases and rebates

6.60 Table 6.1 shows that buying groups can generally achieve a discount and rebate on [REDACTED] that is not materially different from those obtained by some LVGs. [REDACTED] told us that individual members of some buying groups [REDACTED] can benefit when [REDACTED] is selected as a Preferred Product. Those buying groups with Preferred Product lists are [REDACTED] and FOPs who are members of these groups are able to obtain larger rebates as a result.³⁴⁹

6.61 [REDACTED]³⁵⁰

6.62 When taken together, this evidence supports our emerging view that buying groups with Preferred Products can increase their negotiating power by pooling volumes across members and concentrating purchases on specific products where there are many alternatives. In this case study, independent FOPs and third-party retailers that are members of these buying groups can obtain similar terms to some LVGs and face purchase costs for medicines that are broadly comparable to those of most LVGs as well as LVG-owned online pharmacies.

Case study two: [REDACTED]

6.63 [REDACTED]³⁵¹

[REDACTED] is a [REDACTED]

6.64 [REDACTED].³⁵² An LVG [REDACTED] highlighted the significant commercial value and consumer spend associated with the market for [REDACTED].³⁵³

6.65 [REDACTED].

³⁴⁷ [REDACTED] RFI2 response, Q3, 22 November 2024.

³⁴⁸ [REDACTED] RFI2 response, Q3, 22 November 2024.

³⁴⁹ [REDACTED] RFI response, Q11, 17 September 2024.

³⁵⁰ [REDACTED] RFI2 response, Q3, 22 November 2024.

³⁵¹ [REDACTED] RFI11 response, Q20, 25 November 2024.

³⁵² [REDACTED] RFI response, Q2, 22 November 2024.

³⁵³ [REDACTED] LVG RFI11 response, Q20, 25 November 2024.

(a) [REDACTED].³⁵⁴

(b) [REDACTED].³⁵⁵

6.66 [REDACTED].

(a) [REDACTED].³⁵⁶

(b) [REDACTED].³⁵⁷

(c) [REDACTED].³⁵⁸

Rebates obtained by customers on [REDACTED] are small but increase with purchase volumes

6.67 As set out above, we understand that when there are more available alternatives, competitive pressure on manufacturers is greater so they may offer higher rebates to win business. As such, we would expect that customers for [REDACTED] would experience relatively low rebates as there are few effective alternatives available.

6.68 Table 6.2 below illustrates the ten largest customers for gross spend as well as their percentage rebate.³⁵⁹ [REDACTED].

Table 6.2: Discounts and rebates for [REDACTED] obtained by top ten customers

Customer name	Customer type	Spend at list price	% discounts and rebates
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Source: CMA analysis of data provided by [REDACTED]

6.69 The relative size of rebates shown in Table 6.2 is consistent with our expectations for this product given there is a limited number of alternatives available on the

³⁵⁴ [REDACTED] RF111 response, Q20, 25 November 2024.

³⁵⁵ See [Product Information Database - Currently authorised products](https://www.vmd.defra.gov.uk/ProductInformationDatabase/current/search-results)

(<https://www.vmd.defra.gov.uk/ProductInformationDatabase/current/search-results>) (accessed 12 December 2024).

³⁵⁶ [REDACTED] internal document.

³⁵⁷ [REDACTED] internal document.

³⁵⁸ [REDACTED] RF111 response, Q20, 25 November 2024.

³⁵⁹ Manufacturer [REDACTED] RFI response, Q2, 22 November 2024.

market. The range of discounts and rebates varies between [REDACTED] ([REDACTED], [REDACTED], [REDACTED]) and [REDACTED] ([REDACTED]) for these top ten customers.

6.70 Table 6.2 also shows that the relationship between sales volumes and manufacturer rebates may be more complex for this product. In particular:

(a) [REDACTED]

(b) [REDACTED].

(c) Although there is a difference in the rebate percentages obtained by some LVGs and buying groups included in our analysis, the spend is comparable for some LVGs and some buying groups. [REDACTED]. This suggests that buying groups can effectively pool the volumes of their members in order to have a comparable negotiating position to that of most LVGs.

6.71 When taken together, this evidence suggests that some buying groups are able to obtain a broadly comparable rebates to some LVGs, although the relationship between sales volumes and manufacturer rebates may be more complex for [REDACTED].

Other commercial factors are considered by [REDACTED] when setting rebates

6.72 [REDACTED]³⁶⁰ [REDACTED]. This may explain why the relationship between sales volumes and manufacturer rebates may be more complex for [REDACTED] (as shown in Table 6.2).

6.73 [REDACTED]

6.74 [REDACTED]

It is less clear whether buying groups with Preferred Products can obtain larger rebates for [REDACTED] than other buying groups

6.75 Table 6.2 shows that buying groups obtained between [REDACTED] and [REDACTED] in rebates on [REDACTED] from [REDACTED].

6.76 [REDACTED].

6.77 [REDACTED], the differences across buying groups may also reflect the lack of alternatives to [REDACTED] on the market, which would limit the impact on purchase costs of selecting Preferred Products for both LVGs and buying groups. Indeed, the lack of alternatives to [REDACTED] means that it may not be selected as a Preferred Product by buying groups that do select Preferred Products. This is consistent with our

³⁶⁰ [REDACTED] RFI response Q3, 22 November 2024.

understanding of the commercial rationale for selecting Preferred Products to pool volumes into one product among several clinical alternatives.

Case study three: [REDACTED]

6.78 [REDACTED].

[REDACTED] is an important source of revenue to [REDACTED] that may have limited alternatives

6.79 [REDACTED]³⁶¹

6.80 [REDACTED]

6.81 The available evidence suggests that [REDACTED] has a strong position in the market, with few direct alternatives - if any - available to purchase from other manufacturers.³⁶² One LVG [REDACTED] told us that alternatives to [REDACTED] cannot be supplied in the volumes required to be an effective substitute for [REDACTED].

Rebates for [REDACTED] products were much larger than expected

6.82 As set out above, we understand that when there are more available alternatives, competitive pressure on manufacturers is greater so they may offer higher rebates to win business. Given the limited alternatives available for some of the [REDACTED] group of products, we would expect that customers would obtain relatively low rebates, although alternatives to some products in the [REDACTED] group could lead to higher overall rebates across the group.

6.83 Table 6.3 below outlines the ten largest customers for [REDACTED] products by gross spend and the percentage rebate on this spend.³⁶³ [REDACTED]

³⁶¹ Manufacturer [REDACTED] RFI response, Q3(c), 25 November 2024.

³⁶² [REDACTED] LVG RFI responses.

³⁶³ [REDACTED] Manufacturer RFI response, Q2, 25 November 2024.

Table 6.3: Rebates for [X] obtained by top ten customers

Customer name	Customer type	Spend at list price	% rebates
[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]
[X]	[X]	[X]	[X]

Source: CMA analysis of data provided by [X]

6.84 The relative size of rebates shown in Table 6.3 is not consistent with our expectations for these products given there are a limited number of alternatives available on the market. The range of discounts and rebates varies between [X] ([X]) and [X] ([X]) for these top ten customers. This may be because the list price set by [X] for [X] allows for larger rebates to be agreed with its customers. [X]

6.85 Table 6.3 also shows that, while the level of rebates appears to increase with the purchase volumes of customers, this relationship does not appear to be consistent across the customers included in our analysis. In particular:

- (a) [X]
- (b) [X]
- (c) [X]

6.86 When taken together, this evidence broadly supports our understanding that purchase volumes are a significant factor in the size of rebates offered by manufacturers, [X].

The rebates available to buying groups depends on the use of Preferred Products as well as other commercial considerations

6.87 In relation to the buying groups included in Table 6.3, [X] told us that buying groups may not achieve the same rebates as LVGs because [X]. This is because [X]. It highlighted further opportunities with LVGs such as increasing awareness of [X]’s brand and ‘other partnership activities’ that provide additional value.³⁶⁴

³⁶⁴ Manufacturer [X] RFI response, Q3(c), 25 November 2024.

[redacted] also said that differences in purchasing practices, and the efficiencies generated by its supply agreements, would lead to differences in rebate levels across buying groups.

6.88 This is broadly consistent with our current understanding of the rebates that can be obtained by LVGs and buying groups as well as by different types of buying groups. In particular:

(a) [redacted]

(b) [redacted]

6.89 When taken together, this evidence supports our emerging view that buying groups with Preferred Products can increase their negotiating power by pooling volumes across members and concentrating purchases on specific products where there are alternatives. In this case study, independent FOPs, and third-party retailers that are members of these buying groups can obtain similar terms to LVGs and face purchase costs for medicines that are broadly comparable to those of LVGs.

Summary of our emerging thinking

6.90 This section sets out our current assessment of the impact the negotiating power of some vet businesses could have on competition between FOPs as well as between FOPs and third-party retailers in relation to the supply of veterinary medicines

6.91 Based on the evidence set out above, it appears to us that LVGs and buying groups have strong negotiating positions relative to manufacturers and wholesalers because of the scale of their purchases and (in the case of LVGs) the scope of their activities.

(a) LVGs do have a strong negotiating position relative to manufacturers for at least some veterinary medicines, particularly for products that are offered by multiple manufacturers. It appears to us that the selection of Preferred Products helps LVGs to obtain larger rebates by directing their FOPs towards the purchase of one medication instead of other clinical alternatives

(b) LVGs hold a strong negotiating position in relation to wholesalers. LVGs are large and important customers to wholesalers, which means that wholesalers have a strong incentive to retain the business of LVGs. LVGs can therefore encourage wholesalers to pass most (if not all) of the discount they obtain from manufacturers through to them.

(c) Buying groups strengthen the negotiating position of their members. Those which select Preferred Products have stronger negotiating positions than those that do not as they are better able to secure purchase volumes for their members, which generates greater efficiencies for manufacturers that they can pass on through larger rebates on purchase volumes.

6.92 In addition, our case studies indicate that some buying groups can use their negotiating positions to obtain discounts and rebates for at least some veterinary medicines that are broadly comparable to those obtained by most LVGs. This evidence suggests that FOPs and third-party retailers that join larger buying groups, particularly those with Preferred Products, to strengthen their negotiating position could obtain similar discounts and rebates to those obtained by most LVGs.

6.93 We understand that those independent FOPs and third-party retailers who are not members of buying groups (or are members of buying groups that do not designate Preferred Products) would be in a weaker negotiating position – potentially significantly so – than LVGs and some large buying groups. As set out above, we intend to explore why some FOPs and third-party retailers do not join buying groups with Preferred Products or, in some cases, decide not to join a buying group at all.

6.94 At this stage in our investigation, we have not identified any significant barriers that smaller vet businesses face to increasing their negotiating strength with wholesalers and manufacturers. Buying groups appear to be a relatively effective way for smaller vet businesses to increase their negotiating strength to a broadly similar level to LVGs, although we acknowledge that some buying groups may be better able to obtain more competitive purchase costs than others.

7. Consideration of remedies

- 7.1 Should we identify an AEC, we are required to consider what, if any, action we should take to mitigate or remedy this, whether through direct action ourselves or recommendations to others.³⁶⁵
- 7.2 On 9 July 2024 we set out in our Issues Statement potential remedies we were considering and invited views on those early remedy proposals. We have considered submissions that were made to us in response to the Issues Statement and are at the early stages of further developing our thinking on possible remedies, and/or a possible remedies package. We intend to publish a working paper in Spring 2025, setting out our emerging views on possible remedies and inviting written comments.

³⁶⁵ [Enterprise Act 2002, section 134\(4\)](#).

8. Responding to this working paper

- 8.1 Any submissions must be provided no later than **5:00pm on Thursday 27th February 2025** by emailing: VetsMI@cma.gov.uk.
- 8.2 We intend to publish all responses from businesses and other organisations on our case page except those marked as confidential. Please clearly highlight any confidential information in your submission and provide a non-confidential version of your submission for publication.
- 8.3 We may decide to publish anonymised submissions from individuals on our case page. Please clearly mark your submission as confidential if you do not want it to be published and let us know if you would prefer not to be named.
- 8.4 We will redact, summarise, or aggregate information in published reports where this is appropriate to ensure transparency whilst protecting legitimate consumer or business interest. While the information you provide will primarily be used for the purposes of conducting this market investigation, where appropriate, we may also use information provided as part of this consultation in relation to the CMA's other functions. For example, we may share your information with another enforcement agency (such as local Trading Standards Services) or with another regulator for them to consider whether action is necessary.
- 8.5 Personal data received in the course of this consultation will be processed in accordance with our obligations under the UK GDPR, the Data Protection Act 2018, and other legislation designed to protect individual privacy.