

**Economic advisory report prepared for the Progressive Veterinary Association (PVA) in support of its response to the CMA market investigation into Veterinary services for household pets:
Provisional decision report**

Advisors: [REDACTED]

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Background to the advisory report

The advisors are [REDACTED]
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[REDACTED] The Progressive Veterinary Association (PVA) has engaged the authors of this report to act as independent advisors on a pro-bono basis, with the purpose of supporting the PVA in its understanding and interpretation of the CMA's Provisional Decision Report (PDR) and the remedies proposed by the Inquiry Group. To this end, the PVA has presented the authors with a list of specific questions to which it wishes to receive responses. It has also invited the advisors to make any additional comments they wish to make with respect to the PDR and its underlying analyses. The advisors were admitted into the Confidentiality Ring on 23 December 2025 [REDACTED]
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1. General remarks

- 1.1 The PVA has engaged the authors' to provide advice on several issues of interest to it: (a) the validity of the CMA's analysis of profitability; (b) the validity of the CMA's analysis of local concentration, and the omission of divestment orders from the remedy proposals; (c) the validity of the CMA's analysis of rebates/discounts available to independent practices via buying groups; and (d) the logic of the CMA's focus on the price of medicines at the point of sale in FOPs, with limited consideration of 'cross-subsidy' and 'waterbed effects'.
- 1.2 We offer responses to each of these in the sections that follow, drawing – in particular – on Appendices A, C, F, H and I of the PDR (confidential and non-confidential versions), Part A of

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the PDR (including confidential extracts that the CMA has released to us at the request of the PVA), and the Confidentiality Ring version of the CMA's working paper on local market concentration.

- 1.3 The final section of this report (Section 6) also features some wider observations which, in the time we have had available, we have included in case they are of relevance/interest to the PVA and its response to the CMA.

2. The validity of the CMA's analysis of profitability

- 2.1 The PVA has requested our views on the robustness of the CMA's analysis of vet business profitability, as outlined in Appendix C of the PDR. In particular, the PVA has asked us to consider whether the sample size utilised by the CMA in respect of the profitability analysis for independent veterinary businesses (i.e. a sample of 36 businesses in total) is sufficiently representative, such that it may legitimately inform the CMA's conclusions on competition/efficiency in the independent portion of the market, and the remedies associated with this. The PVA has been informed, by several parties, that the CMA was in receipt of profitability data on a range of veterinary businesses, above and beyond the final sample size and, indeed, in excess of the sample size it had originally aimed for (i.e. 50 businesses). It is the PVA's intuition that, if the data underlying the profitability analysis of independent businesses is found to be insufficiently representative to permit robust conclusions to be arrived at (e.g. it is unable to demonstrate that the independent portion of the market is not already functioning well, with modest returns), this justifies the use of targeted remedies directed at the LVGs, on which the CMA does have sufficient data.
- 2.2 In anticipation of analysing the profitability of independent firms, the CMA acknowledged the challenges posed by limited public data on independent practices and the fragmented nature of the independent portion of the market. It thus sought to compile a sample of firms that would form the basis of its analysis, consisting of all four independent businesses with 10-or-more practices ('mid-tier' firms) and a *random* sample of 70 small firms (with the aim of receiving 50 eligible responses) (Appendix C, para 5.1(d)). This demonstrates the CMA's view that a sample of 54 businesses would amount to being representative of the independent portion of the market, from an estimated 667 independent veterinary businesses operating in the UK (Appendix C, para 5.1(b)). This amounts to an estimated 8.09% representation of independent businesses, which has the potential to be representative, if a plurality of qualitative characteristics are also present in the sample (see below) This sample, in the CMA's view, would enable it to safely analyse the profit margins of smaller veterinary businesses against the margins earned by the LVGs' FOP activities, as well as against the CMA's calculation of the normal/legitimate margin of return for LVGs.
- 2.3 Further, the CMA's belief that a *randomly selected* sample was necessary to facilitate a representative analysis offers an explanation to, as the PVA has indicated, why the CMA may have disregarded profitability data from a wider range of independent practices, which was

in its possession. This appears logically sound, especially if data on multiple independent practices has been provided by e.g. business accountants, whose clients may demonstrate similar characteristics or adhere to particular financial practices because of their contractual arrangement with a particular accountancy service. Nonetheless, we currently lack the underlying data in Appendix C to comment on whether the random sample has delivered plurality in terms of e.g. geographic coverage, location (urban/rural), etc. Furthermore, given the challenges the CMA faced in reaching its target for a representative sample size (see below), we believe there would have been value in the CMA utilising any data in its possession that fell outside of its random sample (which it could analyse while controlling for any potential selection bias).

- 2.4 Having initially achieved a sample of 56 firms, 19 firms were removed due to the unavailability of financial information for the relevant review period (i.e. where a firm had not traded over the entire period) or, in one instance, where a firm was removed from the sample because it conducted home visits (instead of performing the function of a local clinic). As a result, the CMA undertook its analysis with a reduced sample of 36 independent firms (Appendix C, para 5.38), which is (i) less than half of the 74 firms originally approached, (ii) short of its 50-firm threshold target (which it had previously indicated as offering a representative basis – albeit, while 50 firms was a target, the CMA has not previously indicated that it considered this to be a minimum sample size to return representative results), and (iii) representing approximately 5.40% of the total number of independent FOPs in the UK.
- 2.5 As a result of the reduced sample size and other factors associated with the way finances are structured within different business models, the CMA is clear that there is a need to exercise caution in drawing any inferences from a comparison between the profit margins of independents and LVGs (Appendix C, para 5.77). LVGs themselves questioned whether the CMA’s sample of independents’ profits was representative, with Pets at Home going as far as to suggest that even a sample of 50 was ‘*so small as to raise significant risks of reliability*’ (Appendix C, para 5.34). Without access to the data underlying Appendix C, we cannot be satisfied that the CMA’s sample of independent businesses is sufficiently representative, which (even in light of the CMA’s acknowledgement of the need for caution) renders the analysis liable to arriving at unsafe conclusions.
- 2.6 For example, the PDR indicates that the 6 most profitable independent veterinary firms (in the CMA’s sample of 36 firms) made an average EBIT profit margin of 28% between 2021-2023 (PDR Appendix C, para 5.23), which suggests a higher margin than most of the LVGs made in the same period (i.e. 4 LVGs achieved average ROCE margins between 13% and 26%). This finding appears to afford the central basis to the CMA’s provisional (and tentative) conclusion that *some* – it is inferred, the top sextile (approx. 16.7%), Appendix C, para 5.77 – independent businesses may have been able to make economic profits similar to 4 of the LVGs (Appendix C, paras 5.49 and 5.54). As aforementioned, the CMA also notes the limitations of comparing the profitability figures for independents and LVGs (e.g. due to the

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smaller than expected sample size for independents), insisting that any comparisons should be made with caution (indeed, the CMA goes as far to indicate that it does not intend to attribute weight to these comparisons; see PDR (Part A), para 7.62).

- 2.7 Absent a widening of the sample size, separate qualitative research into the workings/characteristics of the most profitable independent firms is necessary. This is in order to understand whether these firms in the sample represent a feasible business model for independents seeking to realise profit margins that are comparable to the LVGs. For example, we have heard anecdotally that some independent practices generate large profit margins because they are associated with offering ‘high-end’ or specialist treatments. We do not have access to the necessary data to establish whether these form part of the CMA’s sample, nor whether it has considered the prospect of these ‘high-end’ clinics belonging to a different product/service market than other independents in its sample (such a determination may be revealed by via a SSNIP test, which we understand the CMA has undertaken in other aspects of this investigation).
- 2.8 Moreover, even if the sample were deemed to be representative, there is a strong argument to suggest that this provisional tentative conclusion (i.e. that some independents are capable of achieving profits margins comparable to some of the LVGs) should be considered in the context of the opposite extreme – namely, that while the most profitable independent firm made an EBIT margin of 34%, the sample’s least profitable independent was not even profitable (-9%) (Appendix C, paras 5.23 and 5.50). This is consistent with the CMA’s general observation that profit margins of independents varied considerably year-on-year across the review period (Appendix C, para 5.51).
- 2.9 The CMA has also heard from a veterinary practice owner who expressed concern that *‘the [profitability] working paper reflected the priorities of corporate consolidators and private equity investors rather than the realities of how independents operated’*, failing to take account of the incentives of independents relative to LVGs – namely, independents typically possess fewer incentives to pursue profit maximisation and, indeed, as the CMA itself identifies, some independents are prepared to continue trading despite being lossmaking (Appendix C, para 5.76), with animal care and welfare the primary/sole driving-force. Further, the respondent notes that the CMA’s analysis fails to consider the nature of how LVGs structure their accounts, having the potential effect of under-representing their actual profit margins (Appendix C, para 5.59-5.60), a characteristic that is associated with private equity accounts in numerous markets.
- 2.10 We also wish to highlight the CMA’s provisional finding that the weighted average profit margin for independents between 2021-2023 was 11% (from 15% in 2021, to 9% in 2023). The equivalent margins for the LVGs was 14% during the same period, leading CMA to note that *“the LVGs performed slightly better than the independent vets in our sample”* [emphasis added] (Appendix C, paras 5.26 and 5.53). This provides some evidence to suggest that the LVGs are, overall, more profitable than the independents (albeit, not significantly so) – but,

again, the CMA will not draw definitive conclusions on profitability, because of limitations around its sample of independents. Indeed, we feel that limitations in the analyses of both the sample of independents *and* the LVGs may have contributed to the finding of a narrower difference between the average profits of the two, than is actually the case in reality.

- 2.11 For instance, the CMA has heard from one veterinary respondent who implies that little confidence can be attributed to the 11% average calculated for independent firms, given the wide range of profitability (-9% to 34%) observed within the sample, despite its small size (Appendix C, para 5.61). [§<] It is therefore conceivable that the lower extreme of -9% represents a conservative approximation of the lowest profitability rates achieved by independents in the market, and casts doubt on the accuracy of the CMA's finding of an 11% average among independents.
- 2.12 In Appendix C, the CMA provides explanations for reducing the sample size from the size it had originally targeted, but (understandably) only data for the retained sample is included. Regardless, for the reasons stated above, we have doubts as to the reliability of the CMA's profitability analysis of independent veterinary practices, mostly due to the risk of under-representation created by the small sample size.
- 2.13 For completion, we advise the PVA of the standard of proof that the CMA is subject to in market investigations; namely, one of a 'balance of probabilities', rather than a higher standard of e.g. 'beyond reasonable doubt'. In its response to the CMA, the PVA should be mindful that, while this standard is more readily achievable, it still requires the CMA's conclusions to be founded on sound and representative analysis.

3. The validity of the CMA's analysis of local concentration, and the omission of divestment orders from the remedy proposals

- 3.1 The PVA has asked us to consider whether monopoly and duopoly situations are present in local markets (either horizontally or vertically), and to comment on the merits of the CMA utilising divestment remedies as a means of addressing these. The PVA has drawn our attention to the CMA's final report on the decision to refer the market (May 2024), in which the market review team provides a heat map illustrating the local concentration of FOPs (Figure 2.2). We are asked to consider why the CMA has provisionally concluded that structural remedies are not appropriate in this investigation, despite the heat map indicating limited choice of providers in certain regions.
- 3.2 In response, we wish to firstly note that in the context of market investigations, while a finding of market power (/high market concentration) should influence the design of remedies, it does not necessarily demand use of divestment remedies, given that market power and concentration levels may be fluid/volatile and may have arisen from legitimate business practices and/or shocks to the market. The CMA has only proposed divestment remedies in a select few market investigations in the past, and while this is not a reason to disregard their

potential relevance to this investigation, we acknowledge that (even before the CMA received its pro-growth steer from the UK government in 2025) structural remedies had typically been considered a ‘last resort’ remedy in market investigations, despite their prominence in merger control. In any case, the CMA’s provisional finding (as it stands) that there is adequate choice (as a proxy for ‘adequate competition’) in the majority of local markets has the effect of removing structural remedies from the list of possible measures.

- 3.3 However, we caveat this slightly. We note that the PDR provides very little (if any) data or commentary on market shares at the local level or (save for instances where there is only one provider) the existence of market power. Following the PVA’s request to the CMA for additional disclosures in respect of the underlying data for Appendix A of the PDR, [§].¹ Market shares, in particular, are important factors to consider when evaluating competition at the local level, and offer a more robust insight into levels of competition compared to a mere tally of the number of different providers in a given region (which is, currently, the basis of the CMA’s evaluation under Appendix A).
- 3.4 We note, for example, that even in a local market that the CMA has describes as a ‘duopoly’, the existence of one large FOP (with significant staffing resources) and one small-scale FOP (with relatively limited staffing) would not necessarily (indeed, would be unlikely to) display equivalent market shares between the two FOPs. The perception of ‘choice’ (and its use as a proxy for market concentration) is stretched here, as smaller FOPs may not have the resource capacity to take on clients and/or offer services to the same extent as a large FOP. We would therefore advise the PVA that [§] stands to return an incomplete picture of the degree of concentration in local markets, such that the number of markets found to display high market concentration (particularly in catchment areas found to accommodate 2-4 fascias, in our view) is likely underestimated in the PDR’s findings.
- 3.5 In addition, while it is legitimate that the CMA’s focus (as a competition authority) should be on reviewing market concentration, we are mindful that industry consolidation at the national level stands to have (and has had) a considerable impact on competition within markets for veterinary services (e.g. as the CMA has identified in respect of the negotiating power of LVGs when seeking high rebates in the procurement of veterinary medicines). Currently, the CMA’s reference to industry consolidation has been limited to descriptive statistics that illustrate the ‘corporatisation’ of the market over time – but an increasing number of competition authorities are beginning to consider the implications that industry consolidation can have on competition and market outcomes. We encourage the PVA to ask the CMA for clarification on the role that consolidation considerations should play in market investigations, especially as this appears directly related to several of the societal/welfare aims that the PVA pursues.
- 3.6 We wish to also draw the PVA’s attention to the link between local market concentration, industry consolidation, and the CMA’s merger control enforcement (as a preventative tool).

[REDACTED]

We note the Inquiry Group’s provisional finding that local market concentration is not widespread and, as such, is unlikely to have contributed to price increases in the sector at large. However, the CMA has identified that pet owners pay (on average) 16.6% more at LVGs (compared to independents) and that M&A activity by “at least 3 of the LVGs”² has resulted in a 9% increase in average prices vs. practices that remained independent (not including an increase in insurance claims values). The PVA may therefore express valid concern over the potential for corporate concentration to increase further, if M&A activity returns (as expected) to pre-investigation levels and/or independents feel forced to sell to a corporate if the cost of implementing/maintaining the CMA’s remedies becomes prohibitive.

3.7 In this regard, the PDR stresses the importance of ensuring that the administrative costs of implementing the remedies ‘do not distort the market by imposing disproportionate burdens on some competitors compared to others’. While we acknowledge that the remedies apply equally to all competitors, we note compelling concerns that the relative administrative costs experienced by LVGs and smaller independents (with fewer resources) very likely stands to impose a greater burden on the latter. Moreover, these unequal outcomes stand to be exacerbated by the combination of the prescription cap and online medicine disclosure requirement, which we believe are capable of facilitating a disproportionate benefit to LVGs that are also operating in the adjacent market for online veterinary medicines.

3.8 The Inquiry Group has previously expressed confidence in merger control acting as a safeguard against excessive local market concentration, and reiterates this (albeit more subtly) in the PDR, where it clarifies that “the CMA will continue actively monitoring merger activity in the veterinary sector”. However, we are mindful that monitoring for anticompetitive mergers can only go so far and the CMA’s owner agnostic stance (in terms of PE-backed and non-PE-backed LVGs) may lead to further consolidation. There must be assurances that the CMA will continue to have confidence in its power to intervene in these smaller ‘below-threshold’ transactions and roll-up cases³ – confidence that would now appear to have been brought into question by recent changes to the CMA’s jurisdictional guidance for merger control, following calls for the CMA to narrow its approach to the ‘share of supply’ test under the Enterprise Act 2002 (which the CMA has relied upon in all previous merger interventions in the veterinary services market).⁴ Whereas the CMA has previously been creative in its use of the share of supply test to exert jurisdiction over below-threshold mergers, the scope for utilising the test in this way (especially in light of the government’s

² While the identities of the three LVGs have been redacted, the PDR narrows down the potential candidates to [REDACTED]

³ [REDACTED].

[REDACTED]

strategic steer to the CMA, and the emphasis on growth and investment) appears considerably more limited going forward.⁵

- 3.9 We are therefore concerned that the provisional findings put misplaced faith in the ability of merger control to keep further consolidation in check, especially insofar as further consolidation limits consumer choice (the CMA having found consumers attributing value to independent offerings), and risks local market concentration in the future. We recommend that the PVA encourages the CMA to reconsider the potential for its package of remedies (coupled with a narrowing of the jurisdictional tests for merger control) to result in a patent absurdity, whereby an intervention by a competition authority actually risks resulting in less competition in local markets, brought about by accelerated (M&A-driven) consolidation and the organic exit of independent incumbents.
- 3.10 The merits of interrogating M&A-driven consolidation in the market are clear, given the PDR's findings. As aforementioned, the CMA identifies strong evidence that acquisitions of independents by at least three LVGs caused a 9% increase in average prices at the FOPs they acquired; [REDACTED] (PDR, para 6.17). Paragraph 6.17(b) notes that these price increases (an 'acquisition effect') may, in part, have arisen because these LVGs are unrestrained by effective competition (i.e. a lack of effective competition between FOPs is considered a significant driver by the CMA, PDR para 16.45) and/or associated higher costs with improvements in the quality of services post-acquisition, [REDACTED], consistent with the evidence the CMA has received in relation to post-acquisition fee increases being centrally directed by some LVGs, and 'commonly linked to corporate financial targets' (PDR, para 6.23).
- 3.11 This is of further relevance to the "merger control as a safeguard issue" because the CMA estimates that the acquisition effect on average prices arising from acquisitions by 3 [REDACTED] LVGs ([REDACTED], [REDACTED] and [REDACTED]) was an additional customer expenditure across these LVGs of approx. £130m to £160m in 2024, and estimated to result in a further £600m to £700m additional expenditure over the next 5 years (PDR, para 16.46). [REDACTED]. Moreover, internal docs of private equity investors of [REDACTED] show that the prospect of acquiring a FOP considers their potential to be 'gateways' to other services and could be used to direct patients to group-owned sites (PDR, para 10.73(c)).

Comments on consumer perceptions to ownership as a possible curb on consolidation

- 3.12 We are intrigued at the potential for the proposed 'practice ownership disclosure' remedy to facilitate consumer switching away from LVGs and towards independent practices, such that an increase in the number of clients that an independent FOP attracts (in instances where it has sufficient capacity) may act to offset or completely negate the additional costs that independents stand to incur from the remedy package as a whole. Drawing on the granular

⁵ [REDACTED]
[REDACTED]
[REDACTED]

breakdown of responses to the pet owner survey,⁶ we note that 30% of LVG customers erroneously perceived their vet practice to be independent or part of a small chain, with a further 23% not having knowledge or recollection of their vet's ownership status. This contrasts to only 3% of non-LVG customers erroneously perceiving their vet to be part of a LVG, and a further 24% lacking knowledge or recollection of their vet's ownership status. We have concerns about the restriction this places on the ability of pet owners to make informed decisions, based on their preferences; particularly the 21% of respondents to the *Vet Users Survey* who considered ownership when selecting a vet practice, and the 68% of respondents who expressed a preference for independent practices.

- 3.13 While a valuable remedy in many respects (especially in terms of consumer empowerment), the extent to which the mandatory disclosure of practice ownership will drive switching remains very much in doubt, especially given the weight afforded to locality and recommendations when selecting a FOP. Certainly, however, we anticipate that ownership status can have a tangible bearing when selecting a FOP in instances where there is a large degree of similarity between the locality and recommendations of two practice options. The significant consumer preference for independent (over LVG-owned) FOPs is a factor that most of the LVGs appear to have an awareness of (Appendix F, para 1.13), and which most have taken steps to benefit from (by preserving local branding).
- 3.14 We note the potential for practical loopholes to be exploited by LVGs that are able to exercise a degree of discretion in how they can adhere to an ownership transparency obligation. Insofar as maintaining *perceptions* of local branding may help LVGs preserve the sell-on value of veterinary practices (which we consider to be a particular priority of private equity-backed LVGs, with incentives to facilitate a profitable exit for their shareholders), we encourage the PVA to request assurances from the CMA that its Final Decision Report will articulate the ownership disclosure remedy in sufficiently prescriptive terms, so as to minimise opportunities for the remedy to be circumvented. In particular, we note current and ongoing efforts by some LVGs to rebrand (in terms of the name of their veterinary chain and their 'umbrella' logos) in such a way that could cause pet owners to mistakenly conclude that an LVG-owned practice is independent. Further, given evidence from the PDR of how the specific incentives of private equity-backed LVGs may distort practitioner incentives and patient/client outcomes, we see merit in LVG practices being required to display the identity of their ultimate controlling group.

A note of caution on the efficacy of price comparison websites in concentrated markets

- 3.15 We are cautious of its role and whether it will achieve the same effect in this particular market as we would expect to observe in more 'traditional' or 'typical' markets. Exploring the application of price comparison websites, we would expect to see that enhanced price transparency will help empower consumers to compare prices and enable – and to an extent

⁶ Accent and CMA, *Vet Users Survey* (Final Report, January 2025), p.38 (Figure 34).

encourage – price switching behaviour and competition between firms.⁷ For example, if we take the market for car insurance, consumers can once a year compare prices across the market with their information and identify simply which is the cheapest (and meets the requirements they need), and then choose this insurance provider.

3.16 However, the veterinary services market is different in a number of ways, which means it is unclear if the ‘typical’ economic price comparison thinking will operate or deliver outcomes in the same way. When considering car insurance, for example, any provider could be utilised as the company location makes no difference. However, when it comes to pet care, location is key,⁸ as pet owners can often only travel locally for pet care and cannot travel too far with their pet.⁹ Because of this, it means that only local providers could be considered, so this comparison will be much smaller (as not all providers in the market can effectively be considered).

3.17 Significantly, where there is a limited choice in local providers,¹⁰ the above issue is then further compounded, and price transparency is even less likely to help permit effective comparison, as there is no real choice for switching, owing to a limited number of options in that local area/region. Indeed, the Inquiry Group has observed this point in the ‘Vet Users Survey’ responses, where 55% of respondents reported the reason they felt they did not have a choice in practice was because there was only one vet practice in their area.¹¹ This perception remains significant, in spite of the PDR’s provisional findings on local market concentration.

4. The validity of the CMA’s analysis of rebates/discounts available to independent practices via buying groups

4.1 In its briefing to us, the PVA has highlighted the CMA’s provisional finding – in its review of veterinary medicines – that rebates/discounts available to independent practices via their buying group may sometimes be close or equivalent to those that are received by LVGs in their negotiations with wholesalers/manufacturers. The PVA is concerned that this finding over-estimates the discounts available to independents and, rather, an inability to obtain

⁷ Though these sites can also lead to an increase in prices even for those that do not use them, e.g. see D. Ronayne, ‘Price comparison websites’ *Internat. Econom. Rev.*, 62 (3) (2021), pp. 1081-1110.

⁸ This is supported from the findings of the CMA’s own survey where 68% of respondents to the CMA vet users survey noted location of the practice was a key consideration, CMA ‘Vet Users Survey’ January 2025, pp 27.

⁹ We would again note here the further risk relating back to [REDACTED] vulnerable consumers [REDACTED]

¹⁰ This is of particular concern where there are limited providers in a certain region, or where roll-up and/or local practice closure (consolidation/centralisation) strategies are having the effect of limiting choice of FOPs.

¹¹ CMA ‘Vet Users Survey’ January 2025, p 25.

equivalent rebates in practice renders independent practices unable to compete effectively with LVGs in relation to veterinary medicines. It considers this to be particularly important because the CMA has focused on the practice of independents (and, indeed, LVG-owned FOPs) to charge more for medicines in-practice than would be the case for online pharmacies. From this, the CMA has proposed a remedy that would compel FOPs (including independents) to direct pet owners to potential savings to be made via online pharmacies, of which several prominent providers are owned by LVGs. The PVA has articulated its belief that independent FOPs are a nuanced portion of the market, in which the prices charged for the in-practice supply of medicines act to subsidise other costs, such as consultations and surgeries. This has long been a feature of the market for veterinary services for household pets.

- 4.2 While we are not privy to the information to comment on it substantively, we note the potential for most favoured nation (MFN) clauses to form part of negotiations for medicine prices, and that LVGs are in a stronger position to propose and/or insist on these. The existence of MFN clauses (even in relation to just a few preferred products) has the potential to prevent other LVGs and buying groups from accessing the best discounts on their supply orders. The PDR affords no mention to MFN clauses, which may well be due to their lack of prevalence in the industry. However, the PVA (whose members may themselves have knowledge of the prevalence of these clauses, or lack thereof) may wish to seek clarity from the CMA on whether these have been investigated, insofar as they may present a hurdle to buying groups accessing larger rebates/discounts than they otherwise might. We note that the CMA has itself conducted rich economic research into MFN clauses in the past, which it would be able to draw upon, if the need arises to consider these as part of a theory of harm (facilitated by the largest buyers in the market) that the investigation has yet to consider.
- 4.3 The PDR (e.g. the summary in Table 11.9) suggests that LVGs obtained average rebates of [50-60%] [redacted] from the nine largest manufacturers in the UK in 2024, ranging between [redacted] across the LVGs (PDR, para 11.62(a)) [redacted]. Buying groups in aggregate obtained an average rebate of [30-40%] [redacted] from the same manufacturers, and this figure was slightly higher for buying groups that offer 'preferred product' membership schemes [40-50%] [redacted] (PDR, para 11.63). Other independently-owned FOPs and third-party retailers that are not members of buying groups obtained an average rebate of [20-30%] [redacted], which is comparable to those obtained by the non-Preferred Product membership schemes of buying groups (PDR, para 11.64).
- 4.4 As the PVA has highlighted to us, the CMA has provisionally concluded that buying groups (namely, via Preferred Products schemes) can unlock rebates equivalent to some LVGs: "*[The CMA's] analysis of top selling medicines shows that some buying groups can obtain comparable rebates to some LVGs. For example, three buying group schemes which use Preferred Products ([redacted], [redacted], [redacted]) obtained a simple average rebate of between [30-40%] [redacted] and [50-60%] [redacted] compared to the LVGs which obtained simple average rebates of between [40-50%] [redacted] and [60-70%] [redacted] on the same set of medicines. This suggests that some buying groups that offer Preferred Product membership schemes can obtain comparable*

rebates for their members to those obtained by some LVGs.” Moreover, the CMA has identified two instances where buying groups with Preferred Products schemes achieved weighted average rebates in excess of all the LVGs for two manufacturers; although we would caveat this by noting that LVGs achieved higher weighted average rebates for the remaining seven manufacturers considered by the CMA (Appendix I, para 4.14).

- 4.5 POM-V purchases by buying groups represent a material proportion of sales by manufacturers in 2024 [REDACTED]. Members of the largest buying group membership schemes had a comparable number of purchases [[REDACTED], para 11.321] of POM-V products to [REDACTED] in 2024 (para 11.70). Further, the CMA suggests *‘[t]here is scope for independent FOPs to lower their purchase costs for medicines by joining a buying group or by switching to a buying group that offers a Preferred Product membership scheme.’* (PDR, para 11.77). However, we wish to convey to the PVA that we are not convinced that the CMA’s conclusion paints a complete picture of the discounts available to independent clients of buying groups, given our awareness (anecdotally) of the charges (e.g. management fees or commission [REDACTED]) and restrictions imposed on independent members, even for products where the buying group in question has not been able to negotiate a discount/rebate. In addition to management fees, we note that independent members of buying groups stand to incur additional commission charges and expense on purchases/savings, and can also be made subject to T&Cs that require exclusivity for all/most drug procurement/supply through the buying group (even for medicines where no discount has been negotiated). This has the effect of forcing independent members to order medicines at a higher price than they could otherwise have achieved elsewhere. We would recommend that the PVA highlights this possible oversight to the CMA in its response to the PDR.
- 4.6 Despite purchase volume in the UK being the main driver of rebates, the CMA has found instances where non-UK purchase volumes are considered by manufacturers when setting rebate levels, with three LVGs [REDACTED] revealing experiences of this, and one LVG [REDACTED] indicating its intention to further incorporate international purchases into manufacturer negotiations in the future (para 11.130, extended by paras 11.312-11.314). Buying groups, of course, cannot rely on international sales as a bargaining strategy in negotiations, thereby putting its independent members at a disadvantage in pursuit of rebates that are comparable to the LVGs. Further, *‘[o]ne manufacturer ([REDACTED]) told [the CMA] that it may offer additional rebates to reflect efficiencies generated through centralised procurement used by LVGs and other larger corporate customers’* (PDR, para 11.131), an opportunity that – once again – is not necessarily available to all buying groups, unless they impose strict compliance conditions on their members.
- 4.7 We note that the CMA has *‘also heard that the purchase costs for some veterinary medicines at some independent FOPs are higher than the prices available to pet owners at online pharmacies even when including manufacturer rebates’* (two examples of this are provided in PDR (Part A), para 11.289). Further, the investigation has heard that *‘one manufacturer ([REDACTED])*

told [the CMA] that it must now offer much higher rebates to LVGs to win tenders than it had in the past and that LVGs are ‘extremely important customers due to the proportion of the market they control’ (PDR Part A, para 11.314). While we acknowledge that some manufacturers have identified buying groups as important customers in the market, we do not see evidence in the PDR that indicates the level or prevalence of this importance is comparable to LVG purchasers, who manufacturers are particularly keen to compete for the custom of, by offering larger rebates. Indeed, while the CMA has identified two buying groups (Preferred Product scheme) that have achieved simple average rebates which exceed five of the LVGs (for the top 5 products across seven manufacturers), [redacted] (Appendix I, Table 4.3). [redacted].

- 4.8 The PDR also notes that: *‘The selection of Preferred Products by LVGs and some buying groups is also relevant [to negotiating power]. The veterinary medicines available to purchase at a given FOP may be influenced by certain medicines being identified as a Preferred Product during the procurement processes, typically where more than one manufacturer offers veterinary medicines that are clinically equivalent’* (PDR, para 11.326). *‘The selection of Preferred Products allows LVGs and buying groups to coordinate the purchases of their FOPs so that they 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 and buying groups can lower the purchase price paid for these veterinary medicines’* (PDR, para 11.327).
- 4.9 But the CMA also highlights that LVG-owned and buying group FOPs may still purchase medicines ‘off-list’, should they wish (PDR, para 11.329). Buying groups that do not use Preferred Products *‘spread their purchases across a wider range of products, which means that purchase volumes for a particular product are harder to forecast’*, meaning rebates arising from forecasted sales may not be accessible (PDR, para 11.330), because there is less certainty of demand and/or a lack of available information on historical/expected purchase volumes (PDR, paras 11.331-11.337). Buying groups, in particular, afford their members flexibility to purchase vet medicines ‘off-list’, meaning they are *‘inherently less able to ensure compliance with Preferred Products than LVGs’*, with some LVGs making additional efforts to monitor Preferred Products in their FOPs. Indeed, there is evidence that some FOP practitioners owned by LVGs ‘reported frictions in ordering medicines that were ‘off-list’. (para 11.339).
- 4.10 This appears to go some way towards explaining why even Preferred Product schemes of buying groups are not offered the same level of rebates as LVGs (where FOPs are more homogenous – PDR, para 11.349), and one buying group [redacted] corroborates this by indicating that LVGs as ‘homogenous entities’ – that negotiate/buy centrally (rather than on behalf of members with different purchasing preferences) – makes it difficult for heterogenous entities like buying groups to compete with LVGs when it comes to rebates (PDR, para 11.341).

- 4.11 One manufacturer acknowledged that ‘procurement efficiencies may be weaker for buying groups compared to LVGs’, further highlighting how ‘off-list’ flexibility and other characteristics of buying groups (vs. LVG purchasers) can contribute to buying groups (and their independent members) being unable to unlock discounts achieved by their LVG counterparts. While the CMA has received evidence that one manufacturer [X] approached rebates for one buying group [Y] (PDR, para 11.343), we are keen to emphasise that the qualitative evidence seems to suggest this is an exception to the perceptions held by manufacturers in general.

5. The logic of the CMA’s focus on the price of medicines at the point of sale in FOPs, with limited consideration of ‘cross-subsidy’ and ‘waterbed effects’

- 5.1 The PVA has asked us to consider whether it is reasonable to conclude that there will be no savings available to the public if the CMA’s focus continues to be limited to medicine prices, while dismissing the potential for the associated remedies to impact the price of other services (i.e. waterbed effects).
- 5.2 By way of context to this, the CMA has noted that it ‘cannot form a view as to the significance of the contribution of medicines to the overall profits of FOPs compared with the contribution of other veterinary services they provide. This means that we are unable to evidence through financial analysis the *views of stakeholders that the contribution from the sale of medicines supports the provision of other veterinary services by FOPs at lower prices.*’ (emphasis added) (Appendix I, para 1.23). We are concerned that, despite the CMA’s (potentially, legitimate view) that it cannot form a view on the aforementioned claim of cross-subsidisation to support affordable/accessible services, we ourselves have received a considerable amount of anecdotal feedback within the profession to suggest that this is the case. Omitting to factor this in because of methodological limitations posed by financial analysis creates, we believe, an unsafe basis on which to propose the remedies related to veterinary medicines. The PVA may consider querying whether the CMA has taken the opportunity to draw on qualitative information from practice owners in arriving at this position.
- 5.3 In general, we have heard concerns expressed within the veterinary community of, in essence, ‘history repeating itself’ - namely, in reference to a previous intervention into veterinary markets by the Competition Commission, where price controls imposed on medicines appeared to result in, *inter alia*, call-out fees being charged to farmers for the very first time. Understandably, the veterinary community is concerned that the prospect of further waterbed effects (deriving from historically entrenched cross-subsidisation in the industry) arising from the remedies on vet medicines in this investigation (incl. Remedy 7) has not been afforded adequate consideration by the CMA. The apparent dismissal of this concern may be a symptom of the CMA’s decision to artificially separate medicines and other veterinary services into two distinct markets, when – in reality – the two have historically been interlinked, and even more so as care of domestic animals has become more integrated.

- 5.4 Nonetheless, we see a contradiction in terms where the CMA suggests that the ability of independents to absorb costs will prevent waterbed effects, given that the CMA's investigation has found that medicines account for a large proportion of overall profits of FOPs (a conclusion derived from assessing five of the LVGs), *"thereby enabling these businesses to recover a significant proportion of all other costs of running a FOP"* (Appendix I, para 1.3).
- 5.5 To an extent, it appears that the CMA may be dismissing the potential for waterbed effects, because it now anticipates that independents can cope with (absorb) lost income arising from e.g. Remedy 7. However, the basis of this assumption has been on the profitability of independents, which (as we have observed above) the CMA has itself identified a wide range of profit levels (even among a reduced sample of 36 independent firms). For the same reasons we question the CMA's conclusions on the profitability of independents, we also doubt the ability of a large proportion of independent practices to absorb losses arising from the remedies related to medicines. We maintain this position despite (as we have heard anecdotally) an attempt by the CMA at the London Vet Show to rebut concerns over the prospect of waterbed effects, which – as we understand it (albeit second-hand) – involved downplaying the impact of Remedy 7, in terms of how many consumers stood to switch in practice as a result of its introduction. To evaluate the merits of this claim, the PVA has requested further information disclosures on our behalf.
- 5.6 The PDR finds that, despite potential cost savings, pet owners buy most of their veterinary medicines from FOPs; 81% of pet owners made their most recent purchase from their FOP, consistent with data on online pharmacies in the UK, which account for a [10-20%] [X] share of all vet medicines supplied by manufacturers to FOPs and third party retailers in 2024 (PDR, para 11.14.) Further, CMA analysis of sales of medicines from five of the LVGs ([X], [X], [X], [X] and [X]) *'shows that medicine profits account for a large proportion of the overall level of profitability of a FOP. Profits from the sale of medicines are therefore likely to recover a significant proportion of the costs of running a FOP.'* (PDR Part A, para 11.207). This would appear to further corroborate the suggestion that the prospect of waterbed effects and the ability of independent FOPs to absorb costs requires further consideration by the CMA.

6. Additional advice and comments from advisors

Observations on private equity-owned LVGs

- 6.1 An owner agnostic approach has been taken by the CMA to analysis of the LVGs' conduct. Were a non-agnostic view to be taken, it would potentially facilitate more effective targeted remedies to be imposed – were the data to support it – and permit the CMA to consider the consolidation within the market at a local, regional, and national level.
- 6.2 Overall, the data appears to illustrate differences in incentives and approaches to costs and charges between corporates, PE-back corporates, independents and mid-tier independents

(this being perhaps a better categorisation and division of the market as opposed to just independents and LVGs). For example, the CMA has found evidence from the internal documents of [redacted] that explicitly refers to the revenue/visit-generating opportunity presented by pet humanisation (PDR, para 3.15), and evidence of significant differences in prescription charge costs between LVGs and independents – with the typical cost being [redacted] more through an LVG (PDR, para 11.161). [redacted].

- 6.3 Therefore, it is our view that a more granular break-down and non-agnostic exploration of the market, undertaken more holistically, would likely mean the CMA could better understand the market and the differences in prices and practices and ensure any remedies it imposes are targeted more effectively, in the interests of proportionality. This might be something the PVA wishes to consider or note in its response to the CMA.

Out-of-hours provision

- 6.4 Regarding out-of-hours (OOH) provision, we would bring the following to the PVA's attention. Where the OOH provision is outsourced, the two biggest providers' combined control [redacted] of the market (PDR, para 12.3), with independents making up [redacted] of the provision here (PDR, Table 12.1). There is a significantly higher cost required to deliver OOH services than a regular hours service, with the cost being reported by one provider as being circa [redacted] higher here, (because of matters such as resourcing and staffing costs), PDR, para 12.30. Of note is that of those that responded, more than *'a quarter of responses highlighted the challenges of providing OOH care, particularly in rural areas, with some observing the market was 'increasingly fragile''* (PDR, para 12.59). Finally, there is a significant difference in the notice periods for termination of OOH (for FOPs) of contracts between the main provider [redacted] and the second biggest provider [redacted] with [redacted] (PDR, Table 12.3).

- 6.5 All of these aforementioned factors have implications for the cost of the provision of OOH services. The market is concentrated with two key players. However, it is difficult to identify whether divestiture remedies would be appropriate or necessary, as we have not seen data on local or regional concentration (of the providers and options). However, given the nature of OOH, we see greater potential for the effectiveness of divestment for OOH services relative to FOPs. Again, given the challenges for rural vets in providing – and having access to – OOH services, this might be something the PVA wishes to note within their response.

KPIs and targets as potential distortions to clinical autonomy

- 6.6 We note the CMA's provisional conclusion that key performance indicators (KPIs) and clinical targets have the potential to put pressure on, or unduly influence the decisions of veterinary professionals (Appendix H, para 1.3), and recognise the CMA's calls for regulatory reform to address these risks. Responding to the CMA, [redacted] LVGs submitted that their veterinary practitioners have 'full clinical autonomy' (Appendix H, para 1.9(a)), [redacted] the findings of

investigations by the media,¹² and that which the Inquiry Group has itself—through the course of its investigation—identified from internal documents and practitioner evidence related to LVG policies (e.g. Appendix H, paras 1.14, 1.17,¹³ 1.20(b) and (d), and 1.24) practices which stand to have an impact on both competition and animal welfare. We wish to highlight, in particular, the risks posed to clinical autonomy across the profession where a LVG (in a consolidated UK industry) applies universal policies and protocols across its chain of practices.

6.7 We have further doubts as to the claim by [redacted] LVGs that they “*did not have any policies about which referral centres vets may refer to, or incentives relating to this*” (Appendix H, para 1.9(c)). [redacted] [redacted] we have observed examples of possible pre-emptive action that has been taken by some of the LVGs since the beginning of the CMA investigation (e.g. divesting crematoria, introducing price caps on treatment visits, uploading prices to FOP websites, etc). However, as far as behavioural commitments are concerned, there is nothing to guarantee that LVGs will not revert to their pre-investigation behaviours, unless the CMA’s remedies and/or law and regulatory reform puts restrictions in place.

No evidence of consumer benefit arising from efficiencies (via LVG consolidation)

6.8 Where we observe market consolidation through mergers and acquisitions, and the growth of firms within the market, a typical competition economics perspective dictates that we should expect to see enhanced efficiencies within the larger firms (e.g. via production, service, delivery, purchasing, operating efficiencies, etc). [redacted].

6.9 The data within the PDR and its accompanying appendices does not appear to indicate that these efficiencies are being achieved by any of the LVGs in markets for the veterinary services, or (if they are) there is a strong sense that cost savings are not being passed on to end consumers. [redacted].

¹² BBC Radio 4, ‘[What’s happening to your vet bills?](#)’ (*File on 4 Investigates*, 15 April 2025).

¹³ [redacted]. These policies the very real potential to create distorted incentives for hundreds of practices, and thousands/tens of thousands of practitioners. This affords further credence to the merits of remedies that are targeted to LVGs (or specific LVGs), on the basis that LVG consolidation of the market means their conduct has sweeping impact on pet owners and animal welfare (somewhat analogous to the rationale underpinning the ‘special responsibility’ assumed by dominant firms under Competition Act 1998, Chapter 2.