Measuring Demand for Veterinary Services

Mergers, Acquisitions & Financial Mgmt.
for the
Texas Veterinary Medical Association
December 5, 2007
Dick Goebel, DVM

Law of Economics
- Supply: the ability to provide services and products to a consumer (“the market”)
- Demand: the capacity of the market to consume the supply available
- Need for Supply is determined by measuring Demand
- How do we measure Demand?

Supply
- Is the supply of veterinary medical services in a geography excessive?
- How do you measure this?
- How do you measure your opportunity?

Measuring Demand
- Tools for measuring demand and your opportunity
  - Before you buy or start a practice
    - Demographic information or profiles
    - Psychographic information or profiles
  - Once you are established
    - Focus groups
    - Surveys

Demographic/Psychographic
- Purpose:
  - Practice acquisition
  - Practice expansion (same site, different site or acquisition/merger)
  - Determine location to start a practice

Demographic Information
- Population current and projected
  - Median household income
  - Home ownership
  - Pet ownership
  - Pet spending
    - Desire to spend supported by ability to spend
  - Many other categories
Psychographic Information
- Addresses the behavior of subsets of consumers within a geography
  - ESRI calls it Community Tapestry!
- Buying behavior
- Generational predictors

TMCG Veterinary Demographics
- David McCormick, MS
dmccormick@pvmc.net
- Map area trade boundary – drive-time
- Data profile for defined geography
- Identify several locations, compare opportunities to determine best choice
- Low cost for useful report

Integrated Planning Services
- Jim Hornik and Jan Weaver
  - jinhornik@tds.net 608-437-7031
  - More costly, but more extensive service
- Qualitative Market/Competition Analysis
  - Define natural market for proposed site(s)
  - Evaluate competitors’ traffic and visibility
  - Evaluate the same for proposed site(s)
  - Define client acquisition/retention issues

IPS continued:
- Quantitative Market/Competition Analysis
  - Measure total spending in each market
  - Identify socio-economic/lifestyle segments
  - Define factored number of competitors
  - Calculate revenue available per competitor
  - Calculate total DVM’s market could support
  - Project market demand over 5 years
  - Establish optimum market strategy

ESRI Business Information Solutions
- www.esri.com/data/community_data/demographic/index
- Street address or zip code is reference point
- Includes psychographic assessment
  - Community tapestry – 66 segment descriptions
- Pet spending index
- Pets and products market potential
- Typically looks at 1, 3 and 5 mile radii or drive times

$38.5 billion spent on pets ’06*
1. Food 15.4b
2. Supplies/medicine 9.3b
3. Veterinary care 9.2b
4. Grooming/boarding 2.7b
5. Pet purchases 1.9b

*Source: APPMA (in USA Today, 9-18-07)
$41 billion spent per latest data

- $9.8b for veterinary care or 24% of total
- Americans now spend $41 billion a year on their pets—more than the gross domestic product of all but 64 countries in the world.
- …in excess of what Americans spend on the movies ($10.8 billion), playing video games ($11.6 billion), and listening to recorded music ($10.6 billion) combined.

www.appma.org Business Week article 8-6-07

Retail and Pet $$ in Zip 46545

Retail Goods and Services Expenditures

Latitude: 41.6825 Longitude: -86.1618 Radius: 1.0 miles

Top Tapestry Segments: Demographic Summary 2004 2009
36 Old and Newcomers 46.4% Population 5,062 5,130
32 Rustbelt Traditions 22.3% Households 2,213 2,278
41 Crossroads 17.6% Families 1,222 1,217
29 Rustbelt Retirees 10.7% Median Age 33.8 34.0
50 Heartland Communities 2.9% Median Household Income $35,274 $39,541

Retail and Pet $$ in Zip 46530

Retail and Pet $$ in Zip 46530

Top Tapestry Segments: Demographic Summary 2004 2009
2 Suburban Splendor 62.2% Population 5,527 5,958
4 Boomburbs 23.7% Households 1,698 1,858
24 Main Street, USA 14.1% Families 1,487 1,613
Median Age 36.2 37.0
Median Household Income $99,747 $112,563

Pet Spending Index

Spending Index Ave. Amt. Spent Total
Color Televisions 62 $69.07 $152,849
Video Games Hardware and Software 64 $20.59 $45,565
Satellite Dishes 62 $2.59 $5,737
Rental of Video Cassettes and DVDs 66 $41.81 $50,959
Sound Equipment 67 $125.71 $92,188
Pets 72 $239.84 $530,757

~ 1/4 of spending is for veterinary services: $60/household
~ 1/2 of households have pets, so those with pets: $120/yr

Comparison between Average Client Transaction - Pet Spending Index - Median Household Income

- AAHA Fee Survey & Financial Productivity and Pulsepoints
  - Fees by region, by median, 25th and 75th percentile
  - Gross revenue categories (47% < $500K, 19% > $1.0M)
  - Factors affecting profit (7) and productivity (5)

Other resources
Other resources

- Generational experts
  - Marilyn Motes Kennedy
  - Meagan Johnson (Zap the Gap)
  - Describes differences in perspectives and motivations
  - Newspaper vs. internet
  - Pet spending vs. other spending
  - Lifestyle choice differences/decision making
  - Join/not join professional gatherings/associations

Additional resources

- U.S. Pet Ownership & Demographics Sourcebook
  - Prices
    - Basic Price: AVMA Member Price: $99.00
    - Non-profit Library: $49.00
  - American Veterinary Medical Association
    - Division of Membership & Field Services
    - 1931 North Meacham Road, Suite 100
    - Schaumburg, IL 60173-4360
    - 847-925-8070, extension 6628
  - Key word search (free):
    - Yahoo, real estate, neighborhood profiles
    - For MHHI, COL and other demographic data

Summary of use

- Demographic and psychographic profiles can help decision making for:
  - Start ups
  - Practice acquisitions
  - Remodel, rebuild or relocate

If already in established location

- Focus groups & surveys identify opportunities:
  - Measure receptivity to new products/services
  - And changes in hours, location, facilities, etc.
  - Behavior related services, physical therapy, etc.
  - Measure client satisfaction & improve client service
    - Hours, communication issues
    - Client comforts (parking, waiting, exam, etc.)

Surveys and Focus Groups

- Qualitative: focus groups brainstorming ideas
- Quantitative: surveys test ideas among a prospective customer base

AAHA Annual Pet Owner Survey

- Determines owner attitudes re pets
  - Indicators of human-animal bond
    - 57%: pet as only companion if deserted on island
  - 79%: give pets holiday or birthday gifts
  - 55%: consider themselves mom/dad to pets
Press Ganey Survey Instrument

- Priority index of service by categories
  - Overall hospital
  - Canine visits
  - Feline visits
  - Wellness visits
  - Injury/illness visits

Press Ganey continued

- Demographics
  - 42% of patients >7 years of age
  - 79% canine, 17% feline
  - 61% well visits, 28% illness/injury, 8% chronic
  - 1 visit/yr. 13%, 2 visits 20%, 3 visits 19%, 4 visits or more 47%
  - 83% female clients
  - 27% age 35-49, 35% 50-64

Press Ganey continued

- Referral source
  - Advertising 3%
  - Recommendation 37%
  - Yellow pages 9%
  - DVM reputation 39%
  - DVM referral 11%
  - Website 1%
  - Location 22%
  - Price 1%

Press Ganey continued

- Priority index: correlates practice performance with relative importance to client satisfaction
  - Sensitivity to your emotional needs
  - Helpfulness over the phone
  - Concern for pet by front office staff
  - Respect for owner knowledge of their pet
  - Efficiency of checkout process
  - Efforts to include owner in decision-making

“Gap analysis” surveys

- Michael Sheahan, Krannert Executive Education Programs (including VMI), Purdue University

- Develop material for survey using focus group
  - What do we do well?
  - What do we not do so well?

- “Gap analysis” of survey results
  - Weights both satisfaction AND importance

- Results reported in prioritized fashion
  - Gaps >0.50 are especially significant

- Gaps may be positive or negative

Negative Gaps

- Rank/Gap amount  Survey question
  - 1 -0.30  8c.  Availability of 24-hour non-emergency nursing care.
  - 2 -0.26  3c.  Attention to detail via clear explanations, timely follow up calls, and straightforward answers in the pet’s best interests.
Positive Gaps

- **Rank/Gap/amount**  
  - 1 1.04: Office staff callback
  - 2 0.75: Our MPMC client newsletter.
  - 3 0.66: Links to other pet care-related sites/databases on website (www.magranepmc.com).
  - 4 0.65: Referrals to other pet-related community events.

New services?

- **Availability of 24-hour non-emergency nursing care. How much would you be willing to pay for this service?**

  - 59 clients responded to this question. Fees they listed they’d be willing to pay ranged from $0.00 to $400.00, with a mean of $62.80 and standard deviation of $61.25

New services?

- **Rehabilitation services to facilitate the complete physical recovery from certain debilitating conditions. How much would you be willing to pay per visit for this service?**

  - 55 clients responded to this question. Fees they listed they’d be willing to pay ranged from $0.00 to $150.00, with a mean of $37.27 and standard deviation of $27.50

Measuring Demand

- **Tools for measuring demand**
  - Demographic information and profiles
  - Psychographic information and profiles
  - Focus groups
  - Surveys

Summary: before and after

- **Demographics**
  - Catchments measured by drive-time or radii (1, 3 & 5 miles)
  - Data profile including population and median household income
  - Compare locations

- **Psychographics**
  - Addresses the behavior of subsets of consumers within a geography
  - Buying behavior/pet spending
  - Generational predictors

  - Focus groups: qualitative
  - Surveys: quantitative

  - Measure client satisfaction
  - Measure receptivity to new products/services, changes in hours, location, facilities, etc.

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