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Wellness Plans – All the Talk is leading to Action

We have all heard about pre-paid Wellness Plans being the new industry trend but now we know that approximately 9% of practices have actually implemented programs (Exhibit 1). Our proprietary market research also shows that 52% of the remaining practices are considering establishing programs in the next few years. Companies like Netflix have popularized the ‘membership model’, a pricing trend that has spread across industries, and now veterinarians are looking to replicate their success.

Industry publications report that Wellness Plans increase pet owner visits, grow revenues and increase profits. Banfield was the first to successfully launch wellness plans on a large scale. Because most practice management software packages are not designed to support a wellness plan’s monthly billing nor track utilization, it is challenging for practices to implement a program. In response, WellPet and Purina have launched services to help the individual practice manage Wellness Plans in exchange for a percentage of revenues from plan participants. Currently, only 7% of practices we surveyed with Wellness Plans have used any third party support, but it will be interesting to track if Purina and Well-Pet can achieve compelling results for practices and grow the market.

Our survey found wellness plans are in the early stages, with 48% of them having less than 10% of the clinic patients enrolled and only 10% achieving 50% enrollment (Exhibit 2).

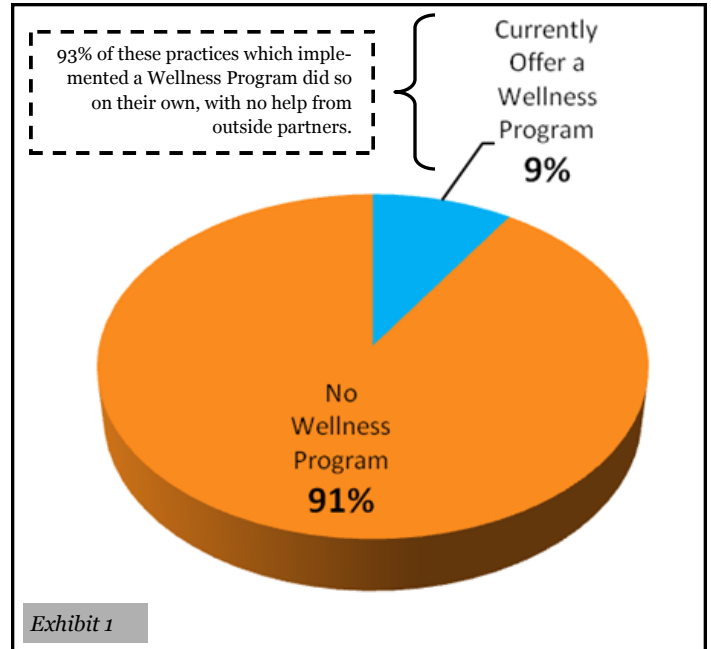


Exhibit 1

Exhibit 2	% of clients enrolled	Enrollment	
		Current	Target
< 10%		48%	14%
10-19%		24%	38%
20-49%		19%	
50%+		10%	48%

Banfield’s plan has several different service levels and different price points based on geography. There are three common components across Banfield’s plans – an initiation fee, a monthly charge and discounts off other services (1) initiation Fee: \$60-70, (2) monthly Well Visit Fee: \$27-45, and (3) discount off medication and other services: 5-20%.

vidual practices’ pricing varies quite a bit: only 38% of programs include a one-time initiation fee, and the range of monthly fees is as low as \$10/month and as high as \$55/month with some plans charging a one-time annual fee.

The best measure of pricing is looking at the discount levels being offered (Exhibit 3, next page).

In our survey, we have found indi-

“9% of practices have already implemented some form of wellness plan”

For survey participant demographics and methodology, see page 4

Wellness Plans – The Momentum will Continue

With the current momentum in the industry, we project that over 25% of practices will roll out Wellness plans by the end of 2015, up from 9% today. According to DVM's surveyed, the primary driver to implement a wellness program is not economic, but rather to promote healthier and longer life expectancy in pets (Exhibit 4).

Most DVM's who are planning to implement wellness plans expect to offer 10-19% discounts, similar to the plans already implemented (Exhibit 5).

Conclusion

While the Wellness Plan movement is still in its infancy in the veterinary industry, we expect these programs to be far more prevalent in the next few years. Not only will third party vendors accelerate the implementation with turnkey programs, a number of veterinary practice management software vendors are actively incorporating the wellness plan model in new releases.

VPP has looked carefully at these programs and believes that with careful planning and pricing, they can help a practice thrive. They are not a panacea and need to be implemented in a manner that leads to healthier pets and healthier profits for the practice.

“VPP projects at least 25% of practices will roll out some form of Wellness Plan by 2015.”

Exhibit 3

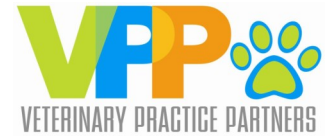
Discount level offered	% of plans
0%	0%
1-9%	5%
10-19%	19%
20-29%	38%
30-39%	24%
40-49%	14%
50% or higher	0%
Other	0%

Exhibit 4

Reasons for Implementing Wellness:	Top-2 % Importance	Mean Score (out of 5)
Pets will be healthier and live longer	87%	4.3
Improve customer retention	79%	4.1
Will increase practice revenues and profits	78%	4.0
Revenues will be more predictable and will increase in slower months	50%	3.4
Need to differentiate my practice from competitors	47%	3.4

Exhibit 5

Expected discounts	% of plans
0%	6%
1-9%	17%
10-19%	50%
20-29%	21%
30-39%	1%
40-49%	0%
50% or higher	0%
Other	4%



Veterinary Practice Market Growth Statistics

As part of our commitment to educating veterinarians on market trends, we include market growth data in each issue so you can compare your practice with industry benchmarks.

We analyze revenue growth and revenue per invoice including data from our survey (over 250 veterinary practices) as well as VCA and IDEXX publically reported data.

The first quarter of 2012 was the best the market has seen in a number of years with 7.2% growth. IDEXX's data was in line with our survey data at 7% while VCA continues to lag the market growth statistics. It should be noted that Q1 2012 had an extra day from the leap year which provides about 1.2% additional growth, so all the figures should be reduced to make a true apples to apples comparison.

The rebound in Q1 2012 can be

attributed to a number of factors including warmer weather leading clients to accelerate purchases of flea, tick and heartworm medications as well as a perception that the economy is improving. However, with uncertainty remaining both in the United States and especially in Europe with regard to the economy, it is unlikely that these rapid growth rates will continue throughout the year.

From a revenue per visit perspective, the market grew almost 1% while VCA grew almost 3%. This metric represent the ability of practices to either increase pricing or have clients utilize additional services in each visit and is an important measure to track the ability of practices to pass cost increases (labor and supply costs) to their clients. While VCA tends to lag the market in same store growth it has tended to out-perform the market in the revenue per visit metric,

showing that it has been able to pass on price increases to those customers that continue to return to their clinics.

“First quarter of 2012 was the best in many years with over 7% revenue growth.”

Year-over-Year Growth

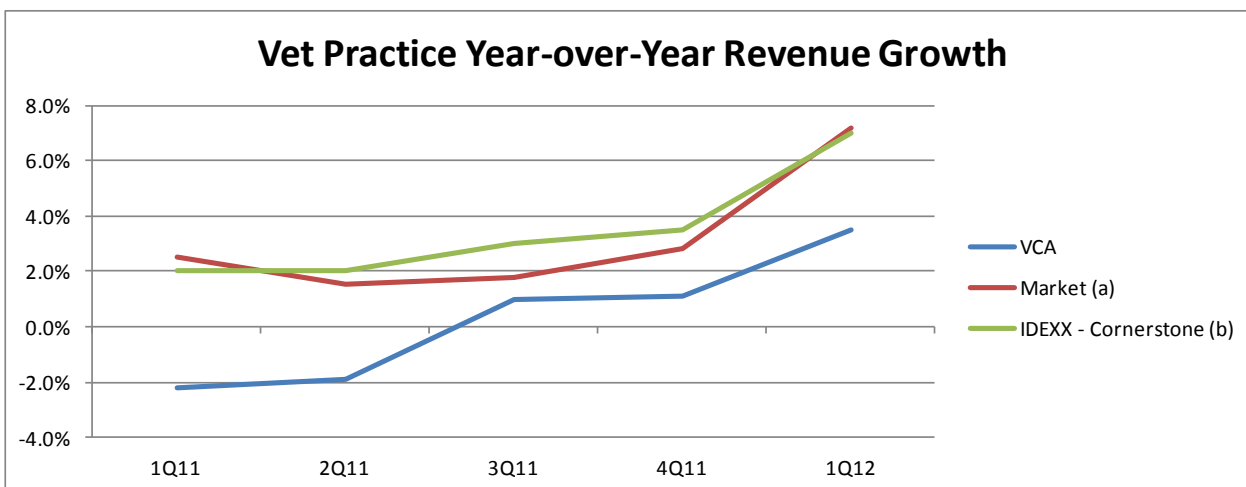
Same Store Revenue Growth	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
VCA	-1.6%	-2.0%	-4.0%	-2.2%	-2.2%	-1.9%	1.0%	1.1%	3.5%
Market (a)	0.7%	0.8%	1.6%	3.4%	2.5%	1.5%	1.8%	2.8%	7.2%
IDEXX - Cornerstone (b)					2.0%	2.0%	3.0%	3.5%	7.0%

Year-over-Year Growth

Revenues per Visit	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11	3Q11	4Q11	1Q12
VCA	3.3%	2.6%	1.0%	1.8%	2.4%	2.4%	3.7%	4.4%	2.9%
Market (a)	0.9%	0.9%	0.2%	2.4%	3.0%	3.0%	2.3%	1.0%	0.9%

(a) Market is the average revenue growth from practices surveyed by VPP's market research group

(b) Data reported by IDEXX relating to practices using Cornerstone software



Survey Methodology

The survey was conducted by a New York City-based healthcare market research firm. The survey questions presented in this newsletter were part of a larger ongoing market tracking study which has been conducted for several years to assess global changes and trends impacting Veterinarian practices. Practice-wide metrics captured in this survey, including monthly revenue data, is provided directly from electronic practice management systems. The survey is not affiliated with any Veterinarian product manufacturer.

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Practices were recruited randomly from a universe listing of Veterinarian practices provided by InfoUSA, a leading provider of medical databases. During the period from April 2 to April 16, 2012, n=227 Veterinarian practices participated in this survey, of which 67% were Veterinarian practice owners, 19% were office managers, and 8% were non-owner DVMs or had other titles. The practices participating in this research represent a good regional cross section of the country.

The practices surveyed are very similar to the national averages for practice revenue.

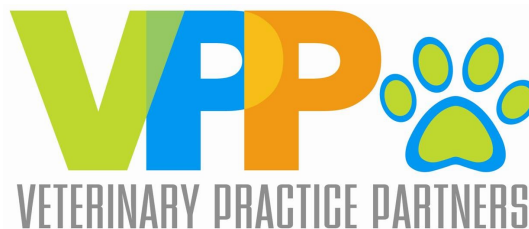
The national averages for demographics and practice revenue were obtained from InfoUSA. It should be noted that all the data is from general practices and we have not looked at the specialty market.

Region	All Practices in Sample (n=227)	Universe of Vet Practices in the US (N=32,755)
New England	4%	5%
Middle Atlantic	6%	10%
East North Central	22%	15%
West North Central	15%	10%
South Atlantic	18%	19%
East South Central	7%	7%
West South Central	8%	13%
Mountain	9%	8%
Pacific	11%	14%
Practice Revenue	All Practices in Sample (n=227)	Universe of Vet Practices in the US (N=32,755)
Under \$700,000	50%	59%
\$700k to <\$1.5 million	37%	27%
\$1.5 million - <\$3 million	13%	11%
Over \$3 million	0%	4%

About Veterinary Practice Partners

Veterinary Practice Partners was founded to create joint ventures with veterinary hospitals. VPP's leadership has seen the partnership model thrive in human healthcare where business people and doctors own healthcare facilities together. This approach, when applied to veterinary practices, creates a clinical and business environment that puts patient care first, while implementing business processes that result in a financially successful venture.

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Rich Lester, Founder and CEO