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Pet Insurance: Still No Breakthrough in the US Market

In Sweden, an estimated 60% of pets are covered by pet insurance. In England, the number stands at over 40%. Yet despite coverage being available to North American pet owners for over 20 years, penetration in the US continues to muddle around 1.5%, while Canada isn't much better at roughly 3%. Given this massive disparity, the burning question throughout the market is, "why?"

To better understand the dynamics at play, we recently surveyed 250 practices across the country to understand their views on pet insurance, how they promote it to clients and how they see perception of the topic changing at their practices in the future. Additionally, we began analyzing VPP hospital data to ascertain the validity of the insurance carriers' claims that covered patients visit more often, and thus spend more. The results were quite thought-provoking.

Like our previous review of online pharmacies (*VETPulse, Volume 3 – Winter '12/'13*), it seems to all boil down to education, or, more accurately, a lack thereof. Of the practices surveyed, a surprisingly high 48% profess to "actively" promoting insurance coverage to clients. While face-to-face promotion is seemingly the most successful method for converting a pet owner, as evidenced by over 75% of promoting practices relying on a DVM, tech or receptionist to promote coverage, most practices admit to using a wide arsenal of marketing techniques to promote pet insurance coverage. Websites, brochures and more were all referenced as alternative tools veterinarians use to convey the benefits of having one's pet insured. However, despite these broad efforts, a meager 7% of their practices' pet owners are estimated to hold coverage for their animals. Clearly a disconnect exists.

Top Reasons Why Practices Are Encouraging Pet Insurance Coverage

39%	Good for unexpected expenses, catastrophic accidents, emergencies
24%	Allows us to provide better, more complete, balanced care
22%	Helps offset expenses (general)
17%	Helps with compliance
13%	Helps with cost of illness
10%	Easier to make treatment decisions when finance are less of a concern

Digging deeper, it seems as though the biggest barrier to adoption is education/training at both the client *and* practice level. In the survey, we specifically asked what would need to change to increase promotional efforts for insurance, and the resounding response (48%) was better education about the product and more time with the client to explain insurance's value. We posit that cursory overviews of programs provided by the insurance carriers are insufficient to instill the confidence necessary for most veterinarians to explain pet insurance in a concise, compelling manner to clients. It is one thing for veterinarians and technicians to promote new preventative as that subject matter is in their professional "wheelhouse"; it is quite another for them to confidently "sell" what effectively amounts to a financial instrument. Deductibles, actuarial science and pool

"A surprisingly high 48% profess to 'actively' promoting insurance coverage"

For survey participant demographics and study methodology, see page 4

risk pricing are still notably absent from most DVM degree curriculums at last check!

Also suppressing pet insurance adoption rates are some strong convictions throughout the industry that the product simply isn't worth the expense. Of those practices that do not actively promote coverage, 44% fail to do so because they are not convinced of its value. It is not illogical to wonder whether this too stems from insufficient education on the part of insurance carriers. If the insurance companies are unable to adequately convince practitioners of coverage's value, how can it be expected that pet owners would be swayed en masse? This response, in part, has prompted VPP's own internal research into the veracity of the carriers' claims that covered pets visit more often and ultimately spend more than uncovered animals.

One area in which we expected some variability, breed or species-specific recommendations, actually yielded little. Of those practices that recommend owners purchase insurance, only 5% admit to making species-specific recommendations, and only 8% provide breed-specific recommendations. Those that attested to making breed-specific recommendations highlighted purebreds, especially bulldogs, as pets that would benefit incrementally more from coverage.

Top Insurance Company Awareness and Preference

	Unaided Awareness of Company	Aided Awareness of Company	Have Experience Working With Company	Practice's Preferred Pet Insurance Provider
VPI	93%	95%	85%	25%
ASPCA/Hartville	53%	66%	18%	4%
Trupanion	51%	65%	47%	28%
PurinaCare	28%	54%	11%	6%
Pets Best	33%	49%	22%	7%
AKC	13%	43%	6%	1%

When it came to specific insurance carriers, we were a bit surprised by the pet insurance companies that hospitals choose to work with and the reasons provided for preferring a particular provider. As the table above illustrates, of those practices that actively promote pet insurance, only three providers were recognized by over 50% of respondents: VPI, ASPCA/Hartville and Trupanion. However, awareness clearly does not lead to preference of a particular plan. Despite 93% unaided awareness, VPI is the preferred provider of only 25% of practices. ASPCA/Hartville fares even worse at 53% awareness, but only 4% adoption. At 51% awareness and 28% adoption, Trupanion has seemingly garnered the most traction with practices.

Reasoning for Preferred Provider Preference

Reason for Preferring Trupanion	Reason for Preferring VPI
2%	Familiar with it 51%
18%	Good coverage/policies 16%
18%	Easy to work with 18%
11%	High Customer Satisfaction/Good Customer Service 13%
11%	30-day free trial -
9%	Good relationship with rep 4%
9%	Good reimbursement 13%
7%	Payment options -
5%	Company philosophy/approach 11%
2%	Company has been around for a long time -
23%	Other 11%

“Of those practices that do not actively promote coverage, 44% fail to do so because they are not convinced of its value.”

When examining the reasons cited for preferring VPI or Trupanion, similar explanations were observed, as evidenced in the table on page 3. Perhaps the one outlier to this question pertained to “familiarity” with the product; something VPI’s longevity in the market undoubtedly contributed to. However, a devil’s advocate could rationalize that “familiarity” isn’t necessarily a very tangible reason and could explain Trupanion’s growing share in the market. If VPI supporters cannot maintain a more compelling reason, perhaps they aren’t ardent supporters after all.

In conclusion, it is our opinion that until the insurance carriers do a better job of educating practitioners of the beneficial economics of promoting pet insurance, coverage rates will continue to trail those observed in Western Europe and other countries in which coverage is more prevalent. While each carrier touts increased visits and client spend, we feel as though veterinarians will continue to be divided on the issue until they see the benefit in their own practice with real client data. This “chicken-and-egg” scenario will undoubtedly exist until either carriers provide more robust education options or engage in direct-to-consumer marketing, something the industry has been loath to do to this point on account of its massive cost. Further marginalizing the product is also likely Banfield’s focus on wellness plans, a direct competitor for pet owners’ disposable income. As the only group with the scale to fund a broad marketing program like the one needed to elevate pet insurance in the American consumer’s mind, Banfield’s hesitancy to focus on the offering undoubtedly hinders its ability to gain additional traction with the broader public. At Veterinary Practice Partners, we are in the midst of an extensive research project aimed at validating the carriers’ claims at our partner hospitals. By examining the spending habits of clients before and after coverage has been obtained, we hope to determine whether insurance is a worthwhile talking point in the exam room for our partners, and if so, what the opportunity cost is of not focusing more intently on increasing coverage rates for our clients and patients. Once we have definitively arrived at an answer, we will be sure to report back on our own, internal findings.

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 from our survey of over 250 veterinary practices, as well as VCA and IDEXX’s publicly reported data.

The first half of 2013 showed some inconsistency in revenue growth across the industry compared to the first half 2012. During the first quarter of this year, a more active winter caused many practices to experience lower growth than the milder environment in which they operated in 2012. Both VCA and IDEXX lamented this fact during their quarterly conference calls with investors. In contrast, Q2 results perked up nicely as the winter thaw saw a jump in performance across much of the industry. While VCA and IDEXX continue to point to price increases as the leading component of year over year growth, modest traffic increases are present. Overall, it would seem as though the market continues to mend itself following the lingering weakness of the financial recession as pet owners continue to spend on their animals.

Year-over-Year Revenue Growth

	2011		2012				2013	
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
VCA Antech	1.0%	1.1%	3.5%	0.2%	1.1%	1.6%	1.8%	1.3%
Market*	1.5%	0.9%	6.7%	3.7%	4.2%	4.0%	2.1%	3.8%
IDEXX (Cornerstone)**	3.0%	3.5%	7.0%	5.5%	6.0%	5.0%	3.5%	4.9%
VPP	-	-	15.3%	11.9%	11.8%	13.2%	11.5%	10.8%

“Overall, it would seem as though the market continues to mend itself”

*Market is the average revenue growth from practices surveyed by VPP’s market research group. The historical data reflects only those practices that have completed the most recent quarterly survey so the data may have changed from prior VETPulse issues.

**Data reported by IDEXX relating to practices using its Cornerstone practice management software.

Survey Methodology

The survey was conducted by a New York City-based 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 changes and trends impacting veterinary 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 in any manner with any veterinary product manufacturer.

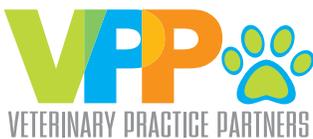
“The survey is not affiliated in any manner with any veterinary product manufacturer.”

Practices were recruited randomly from a universe listing of veterinary practices provided by InfoUSA, a leading provider of medical databases. During Spring 2013, 250 separate veterinary practices participated in this survey, of which 62% were veterinary practice owners, 25% were

office managers, and 13% were non-owner DVMs or had other titles. The practices participating in this research represent a good regional cross section of the country as illustrated by the table above. Additionally, from a total practice revenue standpoint, those surveyed are very similar to the national averages:

Region	All Practices in Sample Set (n=250)	Universe of Practices in US (n=32,755)
New England	4%	5%
Middle Atlantic	7%	10%
East North Central	21%	15%
West North Central	14%	10%
South Atlantic	17%	19%
East South Central	6%	7%
West South Central	9%	13%
Mountain	10%	8%
Pacific	12%	14%

Practice Revenue	All Practices in Sample Set (n=250)	Universe of Practices in US (n=32,755)
Under \$700,000	49%	59%
\$700k to <\$1.5 million	36%	27%
\$1.5 million - <\$3 million	14%	11%
Over \$3 million	1%	4%



Rich Lester, CEO

About Veterinary Practice Partners

VPP is a management company in the veterinary industry; we buy ownership stakes in practices and then work behind the scenes to manage and grow those practices. VPP handles marketing, accounting, human resources and vendor contracting so our DVM co-owners can focus on patient care. Working together as partners, VPP and the DVMs make all major business decisions.

For more information on our unique approach to managing veterinary practices, and to learn how we might be able to help your practice meet its goals, please contact us:

- Visit our website at www.vetpartners.com
- Give us a call at **866-VET-PART (838-7278)**
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