

Your market is all about relationships...



● In the opening presentation of the 2007 Management Symposium, JEREMY JOHNSON explains how there are rewards to be gained for practices that are able to adapt to changes in the veterinary market.

TIMES CHANGE AND so do markets. If the businesses operating in a market do not change, or if the regulatory bodies controlling these businesses do not permit them to respond to change, then, collectively, they lose market share.

It does not matter whether elephants make love or war; the grass still suffers: this is a rather pessimistic way of saying that there are some changes in life that you cannot influence; they just happen to you. But wherever there is change there is also opportunity. The key is not to waste valuable effort and resources trying to alter

things that are beyond your sphere of influence, but instead to focus on changing yourself to adapt to the environment around you. In fact, for those of you who are students of NLP (neuro-linguistic programming) you will know that much of the literature about it talks of you being able to change the world – but only by changing yourself.

Can the veterinary profession change DEFRA? Agriculture, forestry and fishing combined represent about one per cent of the UK economy¹.

The NHS has a budget deficit of £500m and despite reports from the Government that this gap will be closed by financial year-end, the Strategic Health Authority finance directors issued a report earlier this year via the BBC to the effect that they would still be £225m in the red – despite cuts. Even if there was a change of Government soon, the leader of the opposition seems very committed to the NHS, particularly understandable given that he has a severely disabled child. So, even if sympathetic and prepared to listen, just how likely is it that DEFRA would be able to justify to the Treasury policies that favoured a small profession that is still perceived by *The Sunday Times* to be well-remunerated²?

Changes in policy on TB and brucellosis testing would

suggest that, in fact, DEFRA is attempting to keep costs down, and this may result in lost income for veterinary practices.

Mixed practice

Difficulties in agriculture, and hence mixed practice, have been widely reported. According to a report by Mintel, veterinary practice is static and losing market share in the petcare market³.

Mintel also concluded: "Sales in the healthcare category have grown at a faster rate than those of accessories, thanks to wider OTC [over the counter] availability of vet-strength treatments and a rising awareness of pet healthcare issues".

More OTC veterinary products are likely to come along: in the wake of the various reviews of medicines of the past few years, a distribution category review was proposed in 2005⁴ and has just started. Groups of products are being reviewed by the Veterinary Medicines Directorate (VMD) with a sub-group of the veterinary products committee.

Although 870 products are up for review, it does not take a large number of these to be reclassified to have a significant impact on veterinary practice profitability. Products that represent a high proportion of turnover, particularly if they are relatively high value in proportion to their pack size



Territory components by moving annual turnover (MAT)

- 3,500 – 60,000
- 3,400 – 3,500
- 3,200 – 3,400
- 3,100 – 3,200
- 0 – 3,100

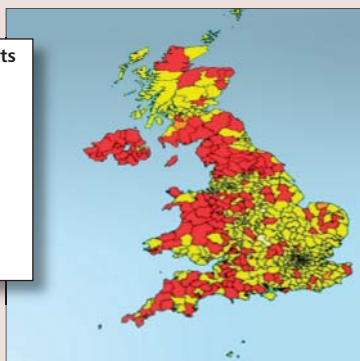


Figure 1. Prostaglandins sales 2004.

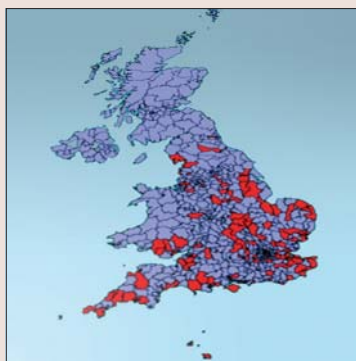


Figure 2. Top 20 per cent flea and worm treatment December 2005.

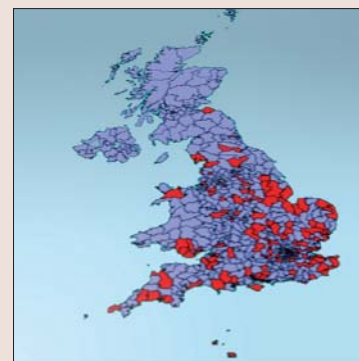


Figure 3. Top 20 per cent flea and worm treatment December 2005.

and require little input at each point-of-sale transaction, have a disproportionate effect; they incur lower storage, transport and shipping costs and not much time to prescribe or dispense.

Only a small proportion of products need to be reclassified to have an impact. High turnover, easy to dispense products that are high value in proportion to pack size have a disproportionate effect on profitability.

The Veterinary Medicines Regulations (VMR) state, among other things, that a product must be classified POM-V if it is intended as a treatment following “a precise prior diagnosis”. However, consider the requirements for former PMLs: a product must be at least POM-VPS if it: is to be used in food-producing animals; contains a new active (<5 years); requires special precautions to avoid risks to the target species, operator or environment; or may cause effects that interfere with subsequent diagnostic or therapeutic measures.

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After careful consideration of all the previous requirements, and the fact that products are also being reviewed by group rather than individually, it is apparent that a considerably higher proportion

of turnover in the marketplace might, in the future, be prescribed by pharmacists or suitably-qualified persons (SQPs), depending upon how veterinary practice responds.

Another of those big changes that you cannot control is the internet. The Office of National Statistics has issued figures showing that the market for online retailing grew in 2006 by 17.7 per cent, the highest growth since records started 21 years ago. How might this affect the market?

If I was in a pharmaceutical company and wanted to know where to deploy sales teams, advertising or other marketing resources, I would look at sales data for certain categories of products. It is not possible to buy sales data for an individual business, as quite rightly this data would be regarded as confidential; however, you can buy data on the sales of products by region.

The following illustrations have been helpfully provided by GFK.

To illustrate the principle, Figure 1 is a picture of the UK generated from moving annual turnover of prostaglandins for 2004. Prostaglandins are a good example of a product to use to look at the activity of vets in mixed practice, in combination with other large animal products, as dispensing them would incur risk, and because, historically, fertility work has been extremely important to the viability of mixed practice.

They are one of the groups of POM products that are destined to remain POM-V and are, therefore, likely to remain a good indicator of activity in large animal veterinary

work. If you accept the premise that fertility work is of economic importance to mixed practice, it is quite easy to see at a glance why it is difficult to run such a practice on the east side of the country, or close to some of the larger cities.

Flea and worm treatments

To look at products that are more likely to be affected by internet sales it is worth taking a look at the market for all flea and worm treatments. Figure 2 shows those areas representing 20 per cent of this market segment in 2005, and Figure 3 shows the same analysis for 2006. Immediately, then, you can see that the distribution pattern is very different to that for products predominantly used in cattle, and sales are concentrated closer to the big cities. However, when you look at the difference between the two graphs, you notice that there are regions that have moved into the top 20 per cent in parts of the country not typically associated with high dog and cat numbers.

In preparation for a presentation for The Management Symposium, and for this article, I searched the internet looking for businesses that offered an on-line purchasing facility for veterinary pharmaceuticals for companion animals. In doing so, I did, of course, find a number of on-line pharmacies that were registered with the Royal Pharmaceutical Society of Great Britain. However, I also found: some non-RPSGB internet pharmacies owned by vets; some with vets and pharmacists working together; one internet

pharmacy run by a SQP that claims to employ pharmacists; and one long-established farm animal trade outlet with a bespoke small-animal website marketing flea treatments and claiming to be registered with the RPSGB when it was not, presumably because the firm had forgotten to update its website since the Animal Medicines Inspectorate moved to the VMD.

So, the picture is rather complicated: what, after all, is an "internet pharmacy"? And for those businesses trading over the internet, but also with a traditional shop front, while you can see the sales in the overall picture of the data, how would you be able to tell what proportion of the business was on-line?

However, when you look at the data from which these graphs were generated, you can see that while this market segment grew by about eight per cent over this period, a small number of regions grew much faster; while most RPSGB pharmacies seem to make little

difference, sales into pharmacies in some postal code bricks – where there was also an internet pharmacy close by – grew by up to £430,000 in one year (in the latter case, 150 per cent growth in that area). Logically, then, somebody in these areas must be taking market share from somebody else.

My conclusion is that today, internet pharmacy in the UK represents only a small proportion of this total market segment, but a small number of businesses seem to be growing very fast in comparison to the market, taking market share, and may, therefore, have more impact in the future, especially if medicines are reclassified.

So, where might the business come from in the future? We often hear reports of how much it is possible to charge clients in London. Out of interest, I took a look at what the Office of National Statistics had to say about spending on pets and pet food in its Expenditure and Food Survey of 2003/04 and 2005/06. This showed

that in the east of England, average expenditure was £4.20 per week, compared to a national average of £3.10 per week. However, the lowest average figures were for London and Northern Ireland, at £1.80 per week.

Naturally, these are averages and there are a number of factors that could bring down the average in London; for example traffic, or the proportion of households where both partners have to work to be able to afford accommodation are likely to reduce the number of pets. However, one of the characteristics of London is the wide disparity between rich and poor around the capital, so Londoners are just as likely to look on the internet for products coming from some other part of the UK, or further afield, especially if prices in the capital are higher than elsewhere.

Reclassification of medicines and the advent of the internet pharmacy mean that you, too, could sell to people in the east. If you do not, it somebody else will.



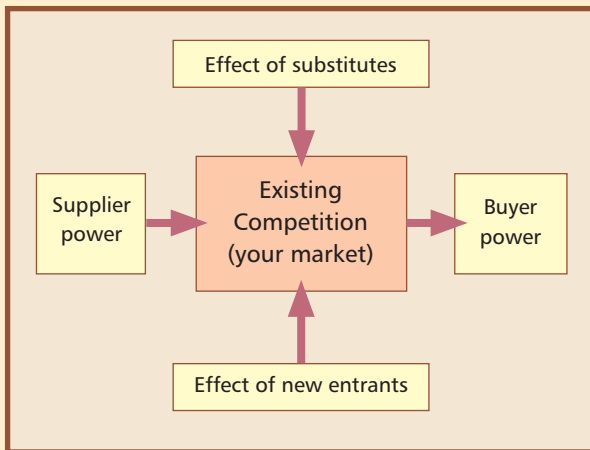


Figure 4.

Relationships

Whether customers choose to buy from you or elsewhere, the future will depend, not just upon price, but upon your relationship with them, whether this be a face-to-face or online relationship.

In the past couple of decades, what started as database marketing evolved into an industry within the marketing industry that became known as CRM, or “customer relationship marketing”.

Initially, this industry grew because of the need for better customer databases and associated technologies to manage direct marketing activities so that the best prospects could be efficiently and effectively targeted.

In principle, CRM is really not very different from vets within a practice having one set of case notes to refer to so that everyone knows what has happened to a patient: in itself, it’s a good idea.

However, some of these technologies were not used very responsibly; all those unsolicited telephone calls and direct mail shots to people who were unable to opt out without considerable effort – together with the growth of online business – have changed society’s tolerance of direct marketing and its expectations of the marketing profession. This was so much the case that new terms have been coined, for example, “Customer Managed Relationships”⁵.

If you look beyond the jargon, while it is not light reading, some of the research is interesting. Among the highlights, it is stated that the most successful businesses,

in order to stay ahead, now:

- link their marketing information and management communications systems together so that everybody in the organisation has access to relevant information about each customer;
- do not send the same information to all of their customers;
- do not offer the same service to all of their customers; and
- set up their processes to enable their best customers to say and get what they want.

Furthermore, despite all the millions of pounds spent on advertising to customers, about 70 per cent still buy on personal recommendation. That is not to say that advertising does not have an effect, but that customers are likely to seek a recommendation from somebody they trust before finally making a purchase.

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The growth of information sharing via the internet has also made word-of-mouth recommendation a more powerful tool for promoting a business; some customers become powerful advocates of a business and are worth investing in for this reason⁶.

However, the new technologies are also a means by which disgruntled customers are able to share negative experiences about a business. For the future it is worth identifying:

- which customers make you the most money;
- who is most likely to refer you to other people;
- how do you set up your processes to get feedback, and do you make it easy for people to complain to you before they complain to somebody else; and
- which media will your customers and staff use to disseminate both positive and negative messages.

It is also worth asking your

staff, confidentially, what the main reasons are that they would recommend you to prospective clients. If they would not recommend you, why is this?

And what media, societies or clubs do they currently use to share “animal-related” information?

Investing in best customers

Knowing which customers are profitable is important because you need to consider how much to invest in your best customers and those who may become advocates of your business.

Not all customers are worth keeping; some are just losing you money and others do spend with you, but subject you to impossible demands.

It is not just average transaction value that is important here. A customer turning up for the first time just to buy a flea treatment may represent a profitable transaction; and if customers find that the receptionist or nurse dealing with them is fabulous, they are likely to have the confidence to come back, see a vet or buy some other product or service, and recommend you to their friends.

So these are some of the lessons being learned by marketers in the world outside veterinary medicine. Fortunately, most veterinary practices have not irritated their clients by bombarding them with mass-mailings or telephone campaigns that they were unable to opt out of, and many veterinary practices have a relationship with their best clients that most proponents of “CRM or CMR” can only aspire to.

However, in our culture people are unlikely to give you negative feedback unless you solicit it; many clients who have a pretty good relationship with you are likely to buy products elsewhere without telling you, to avoid the embarrassment of discussing the purchase with people they probably quite like.

Despite the fact that many practices are less dependent on medicines sales than they were, we are still not surprised to walk into a practice and find that dispensed medicines represent 40 per cent of turnover. Medicines sales are important; it would be hard to continue raising standards in veterinary care without them!

Do you regularly ask your best clients how you can improve things for them?

In the context of veterinary practice losing market share to other channels and a medicines market about to go through some upheaval, what freedom do you currently have to offer different levels of service to different customers, or to communicate with different customers in different ways? Are you now at an advantage or disadvantage in comparison to the competition?

Anybody who has studied marketing planning will be familiar with the model in Figure 4, known as a five-force-plan, or occasionally "Porter's five-force-plan" after Michael Porter, who first described it in this way. It is used to summarise the immediate market that you operate in.

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Anything that affects buyer power affects your market. For example, a concentration of buyers affects your ability to compete; probably the most obvious example of this in the veterinary industry is the poultry industry where a small number of large poultry businesses

are serviced by a very small number of vets; but the internet clearly has an effect as it gives more people access to your customer base, or conversely gives you access to the customers of other businesses.

Defining the marketing

Markets are groups of products or services satisfying the same needs. To simplify things, let's define the market as just the market for either POM-VPS or NFA-VPS medicines; people just turning up at your business to buy a flea or worm treatment, and wanting nothing else. What are the obligations of the different channels?

Firstly, let us consider the obligations imposed by the Royal Pharmaceutical Society of Great Britain. Members of the RPSGB are professional, well-trained people. However, with respect to 24/7 cover, the RPSGB only obliges pharmacists who have a NHS contract to clearly display their hours. The advice that the RPSGB offers on its website to members of the public who might be considering a complaint, states that the society can not consider complaints about contractual issues, for example, hours of opening, or charges for private prescriptions.

So, for a pharmacist, non-NHS hours of opening, or charges for prescriptions, are contractual issues.

What about the obligations imposed by AMTRA? In fact, AMTRA imposes few obligations,

other than to state that the SQP must comply with DEFRA's code of practice. You may struggle to find this code of practice on the DEFRA website, as I did, so go to the AMTRA website (www.amtra.org.uk) if you wish to take a look.

The DEFRA code of practice applies to those people who wish to sell NFA-VPS and POM-VPS medicines. Specifically, it applies to retail businesses registered to hold and supply Veterinary Medicinal Products. The code does not require out-of-hours cover, and, in fact, does not currently require premises to clearly specify their hours of opening. And, for a SQP, the code goes on to state that registrations are separated into: all animals; food-producing; equines; companion animals, including dogs and cats. And a SQP may opt to be registered for a single species if acceptable to its registration body. It's pretty flexible.

A vet's obligations under the *RCVS Guide to Professional Conduct* are not hugely dissimilar from the obligations of a SQP under the DEFRA code. However, the guide states that your client is the "person who requests your professional services for an animal". It would be easy to interpret the guide as saying that a customer is a registered client and you must provide 24/7 cover, even if all the customer ever does is turn up infrequently and buy a flea treatment.





Currently, then, if you are operating in the market for POM-VPS and NFA-VPS medicines, you have more flexibility, fewer obligations, lower entry requirements and, therefore, a competitive advantage as a SQP.

A SQP does have to operate from a registered premises. Under the latest VMR consultation, it is proposed that all veterinary practices retailing medicines have to be registered from 2009. If you are thinking of objecting to this, I would ask you to note that the other channels have to comply and also consider whether you would risk being prevented from retailing medicines in the future? Surely, it is better just to ensure that the charges applied to your channel for registration and inspection are no higher than those charged to the competitor channels.

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Do you have nurses who could prescribe? How many of your clients are aware of this?

The DEFRA code of practice uses the term RQP, or registered qualified person, in contrast to the Review of Distribution Classification, which talks of "responsible qualified persons". The distinction probably does not matter; the word professional comes from the Latin *professio*, meaning a register; if you are a professional person on a register then inevitably you have responsibilities, but they may of course vary according to which register you are on! RQP is defined as vet, pharmacist or suitably-qualified person, although not yet veterinary nurses, who are destined

to have a non-statutory register later this year.

So, the market for veterinary medicines is likely to change; what can you change? At the simplest level, even if geography or resource constraints prevent you from establishing your own internet pharmacy, you can ensure that your website downloads in four seconds on a fairly basic computer, tells people how to find you and that those named products that may be advertised on the web in the UK are available from you. Customers will be looking for them, and location or advice may be more important to them than price.

Trained to refer

Pharmacists are trained to refer; the DEFRA code states that SQPs are required to know when to refer. Despite this, I personally find it easier to envisage a trained and experienced veterinary nurse operating as a SQP saying "I am sorry, but this one really needs to be seen by a vet" (and so did the people I presented to at the VPMA meeting in January). So, if you have veterinary nurses who could operate as SQPs, maybe you could offer to support and develop them if you feel they have sufficient experience to act with greater autonomy. But if you are already set up for clients to see a nurse rather than a vet, do your customers know this service is available? Do you have nurses who could prescribe? How many of your clients are aware of this?

The *RCVS Guide to Professional Conduct* changes regularly and, presumably, so will the equivalent guide for veterinary nurses. Regardless of whether you can change DEFRA, you

can change the *RCVS Guide to Professional Conduct*. It is worth considering now, before the market changes dramatically, whether the guides currently give you sufficient flexibility to operate satellite premises to generate sales or referral business for your practice; if you do not take the business, another channel may, and it is worth noting that the pharmaceutical industry has always been supportive of those who made their products more available. Surely, in the future, you want them to be supporting you.

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Practices that are able to forge great relationships have more opportunities than ever before, and every reason to be optimistic about the future

How would you wish to see the *RCVS Guide to Professional Conduct* change to ensure that you remain competitive in the market for medicines, and have you asked for this change?

The economy is strong, people are prepared to spend upon pets and significant market growth is possible even when pet ownership is static, as Mintel's research shows. New communications technologies open up the possibility of more effective promotion through word-of-mouth recommendation. The market will change. But those veterinary practices that are able to forge great relationships with their customers, veterinary nurses, the pharmaceutical, pet food and veterinary insurance industries have more opportunities than ever before, and every reason to be optimistic about the future.

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