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How and why you should segment veterinary markets

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ABSTRACT

Veterinary markets are traditionally split into three main species related categories. For a business to compete effectively, a greater understanding of the relevant markets and client expectations are required. Segmenting markets into defined sections allows a business to gain a comprehensive insight into where it currently operates and where it needs to position itself in the future.

INTRODUCTION

As with other professional firms, veterinary practices sell their technical knowledge and capabilities in the context of a competitive business environment known as a market. In itself the veterinary market is broad, covering an array of clinical and non-clinical products and services which are concerned with both animal and human health. With so many potential revenue streams it is important that businesses develop a method which enables them to assess where they currently sit, how their revenue is generated and where they intend to position themselves going forward. This article explores how market segmentation allows veterinary practices to gain these key insights into the commercial world in which they operate.

MAIN CONTENT

Segmentation

Few, if any, companies can be 'all things to all people' (McDonald et al., 2003). Therefore, a key decision facing veterinary practices is to understand how the various components of its business (both services and products) impact both turnover and profit. The characteristics of these elements will not be identical. For example, some elements will grow whilst others contract, some will be highly competitive whilst other less competitive areas will require specific equipment and skill in order to be effectively delivered. Once these factors are understood it enables services and products with similar characteristics to be grouped into different markets. As markets are inherently complex they can be defined and segmented in various ways (Walker et al., 2011).

The UK veterinary industry is historically separated into three primary market segments which correspond to traditional undergraduate teaching:

1. Small Animal Sector – covers the treatment of a wide range of animals; most commonly cats and dogs. Other species included in this sector are rabbits, rodents, birds, small reptiles and amphibians.
2. Farm Animal Sector – predominately involved in the treatment of cattle and sheep.
3. Equine Sector – concerned with the treatment of horses and other equids.

Outside of these sectors, there are many other smaller segments including veterinary pathology, zoo medicine and pharmacology.

Regardless of the industry, there are common approaches to market segmentation. The process is not one of absolute precision, its aim is to create relatively homogeneous segments (Walker et al., 2011) which will allow businesses to gain a clearer insight into customer wants and needs. Below are two examples set within the UK Small Animal Sector.

Customer Segmentation

Splitting a potential market (i.e. all the potential customers who may use a business) into demographic groups is a common approach. In this way, a population is segmented depending on one or a combination of their age, sex, occupation, education, ethnicity and income. Often a combination of demographic features, plus associated behaviours, is used to form 'segments' (see Figure 1) which represent different customer lifestyles (Walker et al., 2011).

Type Of Client	Pet Households	Group Type	% Population	
Suburban lifestyle	8,932	High levels of disposable income	10	37
City commuters	6,981		8	
Working parents with children	14,321		15	
Professional workers	4,534		5	
New home owners	28,453	Restricted disposable income	31	31
Industrial workers	13,578	Low disposable income	15	32
Ex-council home owners	12,561		14	
Mixed low income housing	3,574		4	
Total	92,934		100	100

Figure 1. A theoretical Small Animal Sector segmentation of a UK town based on 'lifestyle' groups

This approach can help businesses gain a visualisation of who their customers are and what their requirements might be (e.g. opening hours, product/service range and price sensitivity). This combination of requirements is known as a 'marketing mix' and once understood, it can be tailored to meet a particular market segment and encourage them to use one business over another (Lee, 2006).

Lifestyle segmentation generates an understanding of an actual or potential client base. However, levels of disposable income, age and education are not necessarily a reliable indication of the value owners place on veterinary services or their willingness to spend money on their pet (Lee, 2006). Instead, the 'ever-present influence of emotions' (Gabay et al., 2014), the owner-pet bond and the client-veterinarian relationship all have a significant part to play on a customers decisions (Lue et al., 2008).

Choice Criteria

Within any given sector, veterinary practices tend to offer the same range of products and services (Lee, 2006). This lack of diversity stems from two main factors. Firstly, there is a narrow selection criteria applied when choosing university entrants (DiMaggio & Powell, 1983) resulting in a small subsection of the potential population entering the profession. The second component is the inherent tendency of industries to adopt similar behaviours, rituals and ways of working (Eisenhardt, 1988). The combination of these two factors limits the opportunity for new business approaches, however, it also creates a stable environment enabling practices to interact effectively and people to switch employment with minimum disruption (Meyer, & Rowan 1977; and Zucker, 1987). Within such stable environments, change is rarely driven internally (Greenwood & Suddaby, 2006) and thus tends to occur through external jolts (Meyer, 1982). Inevitably, these jolts create a degree of turmoil and uncertainty as they challenge the accepted organisational structure and processes (Clemens & Cook, 1999) and tend to take the form of 'social upheaval, technological disruptions, competitive discontinuities or regulator change' (Greenwood & Suddaby, 2006). Excluding elements which have impacted all aspects of UK society (e.g. social media), there has been little change in the UK veterinary sector over the last 20 years. The two notable exceptions are:

- **Change in ownership structure:** In November 1997 the Royal College of Veterinary Surgeons (RCVS) modified its stance on veterinary practice ownership (Gripper, 1998) with a formal modification of its Guide to Professional Conduct occurring in 2000 (RCVS, 2000). These changes meant that the ability to own and run veterinary practices was no longer restricted to veterinary surgeons enabling companies to undertake these roles (Gripper, 1998 and RCVS, 2000).
- **Change in medicines regulation:** In 2001 the Competition Commission (CC) was asked to investigate the supply of veterinary prescription medicines in the UK. The resulting report determined that multiple monopolies existed within the industry and presented nine recommendations to parliament (The National Archives, 2012).

The impact of these regulatory changes on the UK veterinary market has been varied. The change in ownership legislation has influenced business structures, pricing and marketing approaches but has not fundamentally altered the goods and services that are offered by veterinary practices. In contrast, the legislative changes instigated by the CC findings significantly altered the veterinary pharmaceutical industry. The declassification of some medicines, in combination with ensuring pharmacies are able to obtain veterinary medicines under the same buying conditions as veterinary practices (The National Archives, 2012) has opened up this market to wholesalers, pet shops and online pharmacies.

The inherent difficulty in setting up unique products, services and strategies in the veterinary sector alongside the scarcity of genuine industry disruption has led to the development of a different approach to segmentation. The method involves understanding a customer's 'choice criteria' (Walker et al., 2011) when they select where to purchase their services or products.

Small Animal Sector Market Segments

Before applying customer choice criteria to the small animal sector market segments it is important to review the characteristics of the products and services currently delivered in the UK. The market can be split into three distinct sectors which can then be further subdivided to form six market segments (see Figure 2) which are discussed below.

Sector and Segment		Description
Over the Counter Products (OTC)		Comprises veterinary related products associated with aspects of animal health and nutrition plus a range of auxiliary items
Prescription Only Medicines (POM)	Acute	Prescription only medicines for the treatment of short-term, acute conditions
	Chronic	Prescription only medicines for the treatment of long-term, previously diagnosed conditions
Level of Veterinary Clinical Complexity	Routine	Low skill clinical work, including vaccinations, neutering and simple wound repairs
	Mid-range	Mid-level diagnostic, medical and surgical work
	Complex	Complex diagnostic, medical and surgical work including referral procedures and overnight hospitalisation

Figure 2. Small Animal Sector market segments

Over the Counter Products (OTC)

This segment comprises veterinary-related products associated with various aspects of animal health and nutrition plus a range of auxiliary items. The products sold will vary from business to business and includes the sale of unregulated medicines and those sold under an AVM-GSL (authorised veterinary medicine – general sales list) and a NFA-VPS (Non-Food Animal Medicine – Veterinarian, Pharmacist, Suitably Qualified Person) licence (NOAH, 2019). These products range from pet foods and accessories (e.g. collars, leads and baskets) to prescription food and pharmaceuticals, such as nutraceuticals and some worming and anti-parasite products. This segment differs from the others as competition is not limited to the veterinary sector but includes non-veterinary businesses such as pet shops, supermarkets and online suppliers.

Prescription Only Medicines (POM)

The POM segment is comprised of pharmaceutical products falling under two licences, namely POM-VPS (Prescription Only Medicine – Veterinarian, Pharmacist, Suitably Qualified Person) and POM-V (Prescription Only Medicine – Veterinarian). POM-V products must be prescribed by a veterinary surgeon and can only be supplied to clients after a clinical assessment of their animal(s) has been completed (NOAH, 2019). The associated POM sales account for over 75% of the UK regulated veterinary drug market (NOAH, 2019) and the

sale of these products is a major source of income for veterinary practices across all sectors. There are two distinct segments within this sector:

1. **Chronic/Long-term Medication** relates to POMs which are prescribed for chronic or long-term conditions (a disease with a time course of 3 months or longer (Polzin, 2011)). Once diagnosed, lifelong treatment is often required. These conditions are mainly medical in origin (e.g. hyperthyroidism or diabetes) and also include the medication for chronic pain and arthritis.
2. **Acute/Short-term Medication** are POMs that are prescribed to treat acute disease – one which appears suddenly and is either fatal or resolves quickly (Boden, 2005). Medication is given for either a short period of time or on an infrequent basis. Examples include medication for infections, injuries and surgical cases.

Clinical Complexity

The range of clinical services that can be offered by a practice is defined by multiple factors, notably the equipment available, the clinical capability of staff and the opening hours of a clinic.

Separating out this market segment is subjective as there are some procedures which cross the boundaries of two categories (e.g. fracture diagnosis and subsequent treatment). However, as with other segmentation methods, the purpose of this task is not one of absolute precision but to gain an understanding of how different elements of clinical work are associated with varying client expectations and require differing equipment and skills to perform. In addition, it is essential that business owners understand which market segment(s) account for the majority of their revenue and profit. This will enable them to better understand customer requirements and adjust their business to meet them, where required. Three segments in this sector are recognised and are described below.

1. **Routine** clinical work requires limited clinical experience, expertise and equipment. The work can be performed during a 'normal' working day by almost all clinicians in the veterinary sector. The segment primarily comprises of two types of work:
 - a. Low value, high volume – repetitive procedures involving the same client (repeat work) such as vaccinations.
 - b. Low value, high volume – non-repeat procedures such as neutering, basis wound repair, simple gastrointestinal disorders and other primary consultations.

This sector has traditionally been seen as the most significant revenue generator for most first opinion practices and is often deemed to be highly competitive and thus price sensitive.

2. **Mid-range** clinical procedures require a greater degree of individual experience and expertise and rely on a practice having a greater range of equipment and associated capital investment. The segment is composed of higher value work than the 'routine' segment and are inherently lower in volume often requiring more time to complete. There is a mixture of procedures within this sector, some are non (or infrequent) repeat work (e.g. mass removals, dental procedures, lameness diagnosis and imaging) while others fall into the high repeat sector (e.g. treatment of diabetic and hyperthyroid patients).
3. **Complex** clinical work requires a substantially experienced clinical team with high levels of clinical knowledge. This intricate level of work relies on ever more specialised and expensive equipment for

diagnosis, treatment and aftercare including 24-hour hospital facilities. The work within this sector is almost exclusively categorised as high value, low volume, non-repeat services (e.g. spinal surgery, diabetic ketoacidosis treatment, MRI (magnetic resonance imaging) and CT (computed tomography) scans).

The first part of the analytical process of a business is to assess the financial contribution of each market segment. Invariably this approach will provide a comprehensive understanding of the non-clinical elements but, depending on the practice management system (PMS), will not enable a true assessment of the clinical components. Most PMS systems will be able to generate numerical and financial details of clinical services (e.g. number of consultations and associated revenue) but these need to be analysed and separated into the three relevant segments (see Figure 3).

Business		Type of Clinical Work								
		Consultations			Procedures (operations and diagnostic work)			Hospitalised Cases		
		Routine	Mid	Complex	Routine	Mid	Complex	Routine	Mid	Complex
A	Number	279	20	2	14	1	0	0	1	0
	%	92.7	6.6	0.7	93.3	6.7	0.0	0.0	100.0	0.0
B	Number	1004	191	7	56	23	1	0	2	0
	%	83.5	15.9	0.6	70.0	28.7	1.3	0.0	100.0	0.0
C	Number	877	266	14	49	108	3	32	143	13
	%	75.8	23.0	1.2	30.6	67.5	1.9	17.0	76.1	6.9

Figure 3. Segmentation of clinical work undertaken at three East Midlands small animal clinics

The analysis in Figure 3 is representative of the UK sector and shows a marked difference between the three businesses in terms of both the types of work performed and the relative complexity within each sector. Business C operates 24 hours a day which enables it to undertake work that the other two businesses cannot offer (e.g. hospitalisation of complex cases). With fewer competitors, these revenue streams are inherently less price sensitive but require more staff with greater clinical capability and a larger range of medical equipment in order to perform them effectively. However, these resources also allow Business C to perform more complex procedural work (whether during the day or at night) which is reflected in the analysis.

Both Business A and B are open 6 days a week and outsource their out-of-hour (OOH) work and the majority of their complex work to other clinics such as Business C. Consequently, they perform little complex work in any sector (see Figure 3). Despite these similarities, there are distinct differences between the two businesses with

B performing a much more significant percentage of mid-range work. Both practices undertake work in the same market segments, but they are positioned differently within these sectors and therefore should not be considered as similar businesses.

The current UK veterinary market is a competitive environment with most practices offering a similar choice of products and services. With multiple options, it is important to understand which 'choice criteria' clients use when selecting one practice over another. There is little research into these decision factors. A lack of meaningful data means that in order to understand these decisions, clinicians have to apply their own set of criteria based on market research, personal opinion or the thoughts of others. The price of veterinary services may be deemed to be a significant choice criteria for clients however, there is little evidence to support this. Research conducted by KPMG (Klynveld Peat Marwick and Goerdeler) concluded that price was the ninth most important factor (see Figure 4) with both location and range of services scoring more highly (Brown & Silverman, 1999). The relatively low significance that owners place on price is a continuous finding (Lee, 2006; Lue et al., 2008; Moser & Johns; 2012; and Gabay et al., 2014) and would indicate that not only do veterinary surgeons undervalue their skills but the veterinary market is less price sensitive than often perceived (Lee, 2006).

1. Veterinarian is kind and gentle
2. Veterinarian is respectful and informative
3. Reputation of veterinarian for high-quality care
4. Past experience with veterinarian
5. Range of services
6. Location
7. Convenient hours
8. Recommendation from friend or neighbour
9. Price

Figure 4. Client selection factors when choosing a veterinarian (Brown & Silverman, 1999)

In addition to price, location and product range, service industries have a common set of choice criteria that can be applied to them (Hill & Hill, 2018):

- **Delivery speed** denotes the time taken for customers to receive the service or product they have purchased. In a veterinary context this includes the time taken to obtain an appointment when one is required.
- **Quality conformance** relates to the provision of a service or product to the stated specification. This can be set by the business directly (e.g. the way a product looks or feels) or can be formed through a customer's previous purchase of goods or services (e.g. the clinical examination relating to a vaccination).
- **Customer relationships** are a key component in any service industry and are the single biggest decision factors for clients (see Figure 4).
- **Delivery reliability** refers to whether a product or service is delivered on time (either promised by the business or expected by the customer).

These choice criteria apply across all veterinary market segments, but will be of varying importance, for clients, across each sector. For example, the financial value placed on different services will vary (e.g. a vaccination compared to an emergency appointment) as will a customer's expectations of what that service entails. This

variation has to be assessed and understood in order for a practice to gain a full understanding of the strategy required to be successful. Figure 5 (below) shows how the importance of one ‘choice criteria’ price may vary across the small animal segments.

Sector and Segment		Price
Over the Counter Products (OTC)		OTC products are sold by multiple businesses through different channels. Price in this sector is likely to be a major factor for most clients.
Prescription Only Medicines (POM)	Acute	The provision of short-term medications is the direct result of clinical advice. There is little opportunity or desire for clients to source alternative sources as the treatment of their animal is paramount. These factors mean that price is unlikely to be of primary importance.
	Chronic	Although initially provided as a direct result of clinical advice, the nature of these products is that they are given time and time again over a long period. The predictability of their requirement and the development of online retailers has resulted in this segment becoming increasingly price sensitive.
Level of Veterinary Clinical Complexity	Routine	This segment has become the most price sensitive segment of all the clinical work. Many practices have adopted a low margin approach to this high volume work and have this strategy at the forefront of their business.
	Mid-range	The importance of price in this segment begins to reduce dramatically. The increased complexity of cases makes it difficult for clients to directly price compare between businesses. Other factors, especially customer relationships, become increasingly important.
	High-end	Price ceases to be a primary decision factor in this segment. Operating these services is expensive due to the required level of facilities and staff. Consequently the price of these services is also high and will be prohibitive for some clients. Customer relationships are paramount in this segment.

Figure 5. The varying importance of price in small animal market segments

The identification of how each market segment impacts practice revenue and the associated importance of the relevant choice criteria forms a fundamental understanding of a business. Once this base is established a business can then decide how it should progress given both its internal capabilities and the external competition it faces. Choosing the markets in which to compete is a business based decision that sits at the heart of both current and future strategy development. It is not a singular process as it influences and is influenced by all relevant functions that comprise a veterinary practice (see Figure 6).



Figure 6. Core functions of a business

Once understood, a practice can fully review the factors that have created success, those that need to improve and identify the capabilities necessary to compete more effectively in the future. These insights will then directly impact the recruitment and retention of staff (Hill & Moffett, 2017) as well as the processes, equipment and procedures that need to be used and developed. To succeed a practice needs to be able to utilise its finite resources in order to maximise its current market position and develop a sustainable future.

CONCLUSION

The ability to analyse the market in which a business sits, remains one of the key elements for success. The veterinary sector is no exception where traditionally the markets have been simply assessed in terms of the species of animal being treated. Breaking these markets down into smaller segments allows a greater understanding of what products and services are provided by a business, how important these segments are to revenue generation, which clients (or potential clients) may use them and what factors influence their choice. This greater depth of analysis enables different businesses to create a clear and consistent approach to the way they work, guiding decisions such as pricing and employment. As a business evolves, analysis needs to continue to ensure that the business and markets remain aligned creating the greatest possible chance of sustained performance.

CONFLICT OF INTEREST

The author declares no conflict of interest.

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