Consolidation nation: Why veterinarians who hate corporate ownership end up selling out

Just like the transcontinental railroad transformed the American West, our profession is experiencing changes the likes of which it's never seen before.

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For many of us who've spent the majority of our adult lives practicing veterinary medicine, the micro- and macro-economic trends emerging in our profession can be disturbing. Our world is changing, much as America west of the Mississippi changed upon completion of the transcontinental railroad. I've watched these changes unfold over a lifetime. Growing up as the son of a 1939 Cornell veterinary graduate and having spent much of my early life baling hay and shoveling horse manure, I could never have imagined, until relatively recently, just what the veterinary world would look like after the turn of the 21st century.

The anachronism of independent practice

Human physicians understand, probably better than most, the corporatization of healthcare services. While I still remember my family doctor having his own office and making house calls, the home visit has all but disappeared and solo and partnership medical practice are near-extinct.

When expensive diagnostics and therapies nobody could pay for out of pocket came along, the insurance juggernaut was launched. With it came government oversight in the realms of residency, Medicare and Medicaid. There were more sticks than carrots for the typical MD, not the least of which was control over hospital admitting privileges.

The doctors who wanted to focus on care more than compliance fell into line and now the private medical practice is disappearing, much like the bison in the late 19th century. For better or worse, human medicine has emerged as corporate, notwithstanding that any given hospital chain might be organized under state law as "not for profit."

In the veterinary world, some would argue that a matching scenario is unfolding for clinicians who treat animals. Diagnostic equipment is too costly for individuals and small partnerships; pet insurance is proliferating, along with its inherent red tape. And there's that ongoing lament: "How can we possibly be expected to tie up that much money in this many costly pharmaceuticals and OTC products?"

Law is more flexible than economics

I don't love it that the neighborhood hardware store I used to visit with my dad was razed in 1995 and is now a Home Depot. It makes me sad that one of Dad's best clients, Charlotte (who always owned a slew of boxers), was forced out of the liquor business by a wholesale spirits chain that opened a 15,000-square-foot discount operation just a few blocks away.

And while I hate to admit that I like paying a low price for Tito's (I try to buy American) and that I enjoy being able to buy any size wrench in the world on a Sunday afternoon, I miss the way it used to be. But it's understandable that in the booze and hammer businesses, the big money was destined to bury the little guy.

What's harder to conceive is that in my hometown, Hamlin's Drugs and the corner optician are also mere memories. While the government used to stand fast against the corporate ownership of "learned professions," today, sure enough, I can buy my pills and my glasses at Walmart. How could this happen? At one point I wondered if doctors just weren't "special" any more. Then came law school—and all of my provincial fantasies were torn asunder.

Consider Justice Tilzer of the New York State Supreme Court

Once I had some training in the law, I discovered why Mr. Hamlin's drugstore had given way to CVS and Walgreens. And I now know who's responsible for allowing a candy company to own a monstrous catalog of veterinary hospitals across America. The person responsible is George Tilzer.

You don't have to read the entire opinion Justice Tilzer wrote in the critical 1960 New York State Supreme Court case—here's the operative language: "The Court finds that the defendant [Sterling Optical Inc.] is not prohibited from employing licensed optometrists for the *limited purpose of examining the eyes* of its customers" (emphasis mine).
Of course, we can't hold the good judge exclusively responsible for the proliferation of corporate dental, veterinary, pharmacy and physical therapy practices across the United States. Similar cases have played out across the country, creating a fertile environment for venture capital to enter the health provision space. And it has. And it's done very well.

How and why are consolidators successful?

Having drafted and read countless veterinary clinic profit-and-loss statements, tax documents and employment contracts, I believe that several key factors have led to the success of corporate veterinary practice consolidators (sometimes referred to as "roll-ups").

Consider that in the 19th century, nobody had profited from a transcontinental railroad because nobody had created one. But once Central Pacific and Union Pacific accomplished the unthinkable, every railroad company large and small wanted a piece of the action. In our business, seminal litigation like the People v. Sterling Optical case opened the door for virtually every licensed profession to be "operated" by big business. Wall Street set about feasting on the dentists' lunch, then the undertakers'—and now there's rapidly developing interest in ours.

One might ask, at least as far as the veterinary field is concerned, "If we practitioners and practice owners are resistant to corporate practice ownership, why is it proliferating?" I talk with a lot of veterinarians and I have heard a lot of opinions. Here's a summary of my personal conclusions, based on information obtained from my unique grapevine:

Corporations don't have to make a profit at the start. With their extensive financial resources and backing, consolidators have an advantage over independent veterinarians in negotiating a clinic purchase. If a practice's location, demographics, staffing and culture are solid and can be significantly improved under new management, a roll-up can offer an outsized price to a seller. A corporation can and will take a hit on a clinic's purchase price as long as its long-term profitability and growth prospects appear satisfactory.

Cash is king, and it always will be. All things being equal, would you rather sell your house to Buyer No. 1, who has a cashier's check for the full price in his pocket and can close almost immediately, or Buyer No. 2, for whom you'll have to finance some or all of the purchase yourself?

Consolidators create their own labor price control structure. Imagine a sunny southern city of 500,000 that has two or three corporations vying for general practice associates. All the corporate clinics have a very good idea of what the competition will offer a candidate. DVM pay is unlikely to increase much due to supply and demand forces—those forces cease to apply when a large percentage of the local jobs offer virtually identical pay (which is likely to be around 20 percent of the veterinarian's personal production—probably with a negative accrual).

Consolidators don't have to compete with online pharmacies. They can purchase product at the same price as online pharmacies due to their size and scale. Add to that the reality that many corporate veterinary groups no longer include refill prescriptions as part of their associates' gross production, and it becomes clear: Corporate veterinary practices can thrive while competing independent clinics have trouble making a profit high enough to keep them from selling out to—well, a corporation.

Parting thoughts

In an earlier time, young professionals had a unique advantage in our competitive market economy. A license to practice a profession provided access to business opportunities in which only a select few were qualified to participate. The dearth of competition was precious: it meant that practice ownership was likely to be available, profitable enough to make financing a snap and, for those possessing even marginal management ability, likely to be lucrative.

Then somebody let the highly capitalized roosters into the henhouse. Practice buyers proliferated and clinic prices rose. The luxury of choosing to buy a practice "at a convenient time in life" devolved into a scramble to locate a hospital—any hospital—that hasn't already sold or whose price has not already been hopelessly bid up.

Bottom line, if a DVM wants to be an owner now, she'd better be alert when opportunity knocks, savvy when negotiating price and terms, and disciplined enough to compete with the big dogs when she finds herself the owner of a veterinary business.

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