Barbarians at the Gate: 
Managing the Veterinary Pharmacy in a time of extreme outside competition

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A lot of decision making goes into selecting a pharmaceutical for patient treatment. From a practice management and customer service standpoint, one might argue that just as much consideration should be given to which pharmaceuticals should be stocked as inventory in the veterinary pharmacy. We have excellent veterinary products available for dispensing, but we have also seen a lot of competitive pressure lately, not only from Internet pharmacies but also from retail stores and human pharmacies. With veterinary clients having more opportunities than ever to purchase medications for their pets, it’s time for veterinarians to consider how to best utilize their pharmacies and how to provide the best service for their clients.

Does It Make Sense to Stock and Dispense Human Generic Medications?

Generic human drugs serve a purpose, but most of these drugs that veterinarians stock are not approved by the US Food and Drug Administration for use in animals, may come in inconvenient dose sizes, may have directions and cautions appropriate for humans rather than animals, and are tested for equivalency only against branded human medications. From a business standpoint, these products are similar to or the same as those sold by pharmacies, department stores, and other retailers, often for considerably less. Unfortunately (or fortunately, depending on your perspective), in the United States those same retailers are locked in a bitter battle for customers, in some instances reducing the price of many human generic drugs to a few dollars for a month’s supply. Some are even providing these products for free (including prescriptions for pets). While this type of price-competition may not be as acute for Canadian veterinarians, given more uniform pharmacy pricing, there is still little advantage in selling human generic medications in competition with human pharmacies.

Veterinary practices in the United States may be able to sell these products more cheaply than branded medications, but cannot profitably sell them as cheaply as low-price retailers. What do you say when clients ask what the difference is between the human generic that you think you are selling cheaply, and the truly cheap human generics available elsewhere? The other option is to continue selling human generics and hope that clients don’t notice that the same products are available elsewhere at significantly lower prices, despite the millions of dollars that retailers spend to promote these bargains. At the same time, pet owners are being conditioned to expect that human generics are the treatments of choice for many animal ailments--probably an unintended endorsement by the veterinary practices dispensing them.

Human generics do have their place, but if the goal is to deliver medications to owners at fair and competitive prices, and you believe that a human generic is in the best interest of a patient, then the sensible solution is to write prescriptions for these products and allow owners to find the best
bargain they can (and there are plenty to be found). When it comes to an analysis of profitability from human generics, they only remain profitable as long as clients are unaware of the alternatives. That is not a sustainable business model. In addition, profits tend to be marginal at best when markups are applied to inexpensive medications. So, if you have a human generic that costs you a few pennies apiece and you double or even triple that to arrive at a retail price, you have a very meager return for something the client still could have purchased cheaper elsewhere.

From a business perspective, it makes the most sense to stock veterinary-labeled products for sale and price them appropriately². Such products are FDA-approved and tested in animals for safety and efficacy, come in dose formulations that are convenient for the species being treated, and are manufactured by companies that will stand behind the products if there are problems or adverse events and also that support the industry in which you work. That should be a compelling argument. After all, what have human generics companies done for you lately?

**What About Internet Pharmacies?**

Most veterinary practices are very concerned about Internet pharmacies, but these companies only exploit the sometimes-unrealistic drug pricing models used by some veterinary hospitals. Practices are occasionally surprised to learn that most of veterinary pharmaceutical manufacturers do not sell product directly to these pharmacies. Often, non-veterinary Internet pharmacies purchase product from veterinarians (often referred to as “diverters”), who purchased those products from manufacturers or distributors. Of interest, though, is that even when paying these diverting veterinarians a commission for buying these products on their behalf, Internet pharmacies may still be able to price the products less than veterinarians who price according to standard markups in use by the profession today. Why is that? It’s because Internet pharmacies are selling commodities according to a competitive retail pricing model, while some veterinarians continue to try to price these products as if they were professional services. While the situation is different in Canada, with fewer internet pharmacies, the pricing model used still makes veterinary pharmaceuticals appear cheaper, although having to pay shipping does lessen any potential savings.

**The Veterinary Pharmacy as Profit Center**

To operate a pharmacy as an efficient profit center, veterinarians need to be able to manage inventory and price products appropriately. There are very real costs associated with inventory. There is the direct cost of acquisition, which is the price paid for the medication itself, as well as the indirect costs associated with ordering and stocking products. Indirect costs can constitute 20% to 45% of the acquisition price,¹ depending on how efficiently the pharmacy is being managed.

The most challenging issues regarding pharmacy vulnerability are pricing models, and this is usually complicated further by the tendency to pay commissions to pharmaceutical sales associates. There are three basic pricing models in use today by veterinary practices: markup, margin, and community pricing.

Markup is the most common, and it is not unusual for veterinary hospitals to mark up their products 100% to 200% to arrive at a retail price, typically doubling or tripling (or something in
between) the acquisition cost of the medications, and then adding a dispensing fee. This magnitude of markup is extreme by retail standards, and paying a professional commission on top of that only compounds the problem of trying to close the gap between veterinary prices and those of competitors.

Markups have another unfortunate consequence—they tend to amplify the cost of expensive medications (or treatments intended for large dogs), and reduce the costs of inexpensive medications (or those used in small dogs or cats).

For practices that see an inequality in the markup model, margin (also known as cost-plus) models are a good alternative. Veterinarians already use this premise on a simple level in the sale of pet food. They implicitly realize that they can’t double or triple the cost of a bag of pet food if they want the owners to purchase the food without asking a lot of awkward questions. The margin approach involves adding a unit price to each item rather than a markup formula. In addition, practices rarely pay professional commission on the sale of pet foods or they would never be able to keep the price competitive.

We can do something similar for all pharmaceuticals, including tablets, capsules, shampoos, and injectables, which is profitable for the practice, and fair to the clients, regardless of the size of their pets or the cost of the medication itself. This involves adding a “margin” or base amount to products (or services) that does not vary with the cost of the drug or the size of the animal. For margin pricing, take the actual unit cost of the drug and add an acceptable amount to cover the costs of ordering, storing, and loss (either as a fixed amount, a variable amount, or as a percentage of the actual cost of the product). At this point, there is full cost recovery, but no profit. To include profit, add a unit or fixed margin charge (or a margin percentage) on what the practice wants to earn for each unit dispensed or administered. This allows the practice to make a standard “margin” on every product sold, while covering all acquisition and inventory costs. There is no penalty for a pet owner who needs to buy a large quantity of or very expensive medication. It is possible to pay commission to associates on the basis of margins, but only on the margin amount itself and not the full retail price, since all but the margin represents expense, not profit.

Community pricing is a way to establish a selling price on the basis of what others charge. A practice might use community pricing based on other veterinary hospitals in the area or on retail prices available at Internet pharmacies or other outlets. Community pricing ensures that you won’t be readily undersold, but unless costs are determined, you may still be stocking and dispensing medications that are not profitable for the hospital.

As has already been demonstrated, it is not possible for veterinarians to run a profitable pharmacy for a sustained period selling products that can be purchased elsewhere at lower prices.

**The Importance of Customer Service**

When clients present a pet for examination, they are prepared to pay professional fees to the veterinarian for the expertise in medical care, diagnostic testing, and treatment recommendations. After all, providing medical care to an animal requires a high level of expertise that isn’t available from other sources, and veterinarians deserve to be well compensated for their
professional skills. However, once the veterinarian has made a recommendation for treatment, the client has concluded the professional part of the visit and then needs to purchase the products recommended at the best combination of price and convenience available. Most clients will pay a slight premium to purchase the medication in the veterinary office, but they consider it a commodity and not something to which professional fees should be attached. Large discrepancies in prices can cause owners to be concerned that if drugs are overpriced by the practice, prices for services at the practice might be inflated as well. Since veterinary services are a relative bargain for pet owners, this is not the type of message a practice wants to convey.

It is very important that veterinary hospitals not judge a client’s desire to save money as disloyalty to the practice. After all, when they get a prescription from their physician, they may very well compare prices at different pharmacies, including online and even out-of-country pharmacies. Once again, pet-owning clients paid the professional fees to the hospital for the medical advice— as far as they are concerned, the purchase of the medication is just a commodity transaction. It probably has nothing to do with how they feel about the care their pet received, and many are shocked to see veterinary staff react in a threatened fashion when they ask if the same or equivalent medication might be available online or at a retailer. Don’t be threatened or respond defensively; it adversely affects the client’s perception of you as their pet health advocate and is an overreaction to an honest question.

Clearly, the goal is to select the most appropriate medication for the disorder, for the practice to make a reasonable profit on stocking and dispensing medications, and for clients to receive value for their pharmaceutical purchases and even more value for medical services and counseling. This might involve changes to the current pharmaceutical pricing models currently used by most veterinary practices (and potentially adjusting professional production compensation for associates), stocking products labeled for use in the species to which they are to be administered, communicating appropriately about the benefits and risks of all medications dispensed, and serving as an advocate for the needs of clients and pets. Some additional considerations include:

- Advocate pet insurance, to help owners better afford needed medications
- Consider providing your own Web-based pharmacy if clients find this convenient
- Provide reminders to clients to administer medication on schedule, especially those that are only periodically administered (such as heartworm and flea-control products)
- Use injectables when medically prudent to do so, to improve compliance and convenience
- Maintain a practice formulary to keep inventory lean and to avoid duplication
- Monitor product turnover and stock products according to need and use
- Expect professional compensation for professional services and retail revenue for commodity transactions.

Summary

The veterinary pharmacy is at an important crossroads, and veterinarians will ultimately determine whether it will remain an important profit center in practice or be eroded by outside competition. Success is likely predicated on veterinarians acting in their best interest and stocking products that are veterinary labeled rather than human generics and pricing those
products competitively. New models and approaches need to be considered for the profession. Will veterinary hospitals heed the call to action?

**Recommended Reading**


