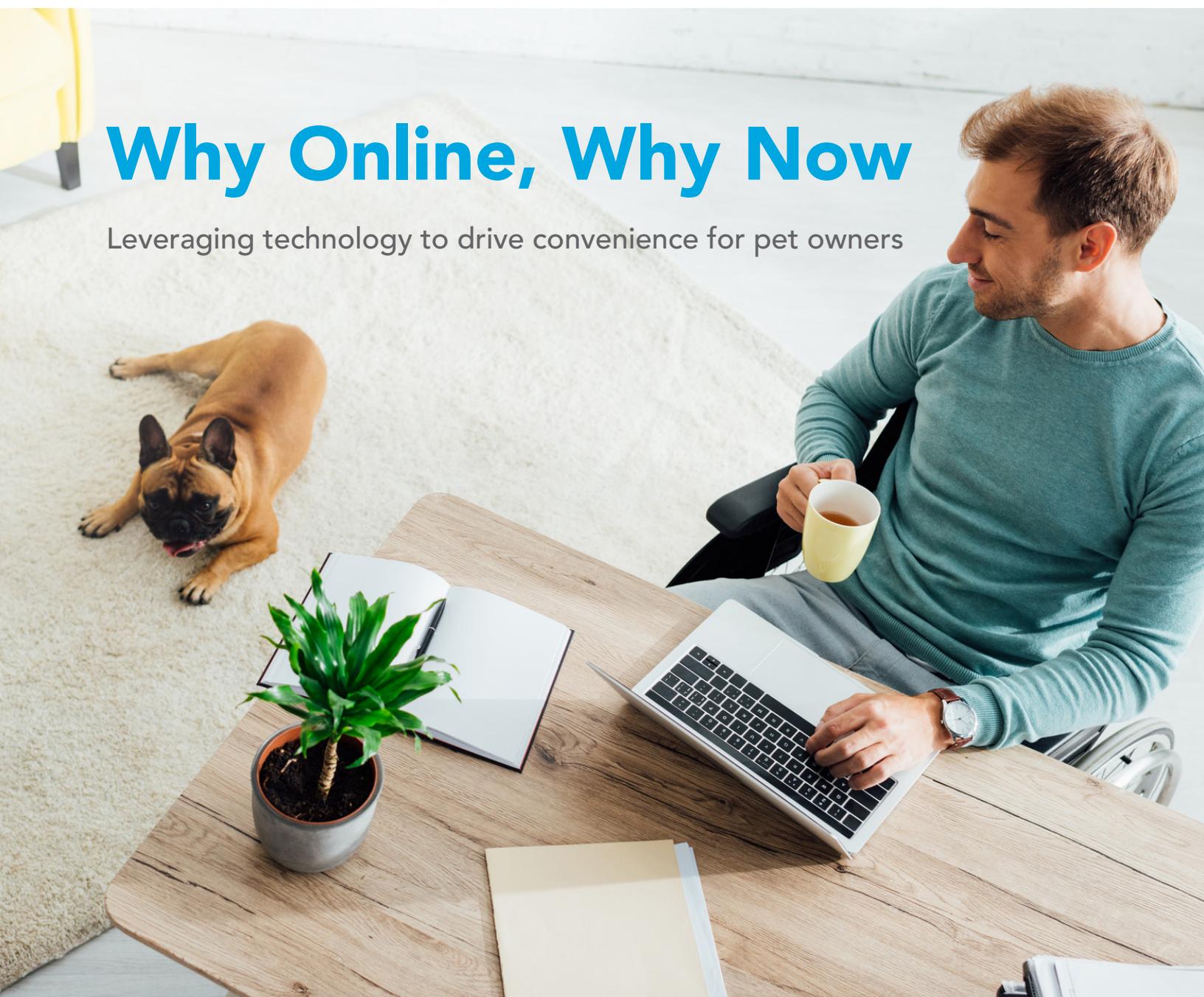




Why Online, Why Now

Leveraging technology to drive convenience for pet owners



Executive Summary

Professionals in the veterinary industry are well-versed in weathering change. Whether it's shifting revenue sources, new technologies, or changing competition and consolidation, there's never been a shortage of ways that businesses in the industry have needed to adapt.

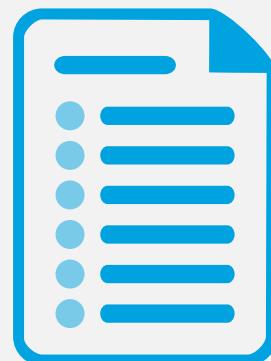
The year 2020 was no exception and was challenging in ways that no one could have imagined. In response to these challenges, the industry has proven itself once again to be resilient with innovative solutions, existing technologies, and a lot of hard work, allowing practices to weather the economic storm.

The good news is that the adaptations many practices implemented in response to social distancing requirements, health and safety concerns, and changes in client behavior have lasting relevance and benefits far beyond the pandemic itself. And with the veterinary industry expected to see continued growth, the outlook for veterinary practices who adapt to the changing marketplace and client demands is great.

Why Online, Why Now covers the economic trajectory of the veterinary services industry and changing pet owner demographics, behaviors, and needs. It also looks at how these changes have manifested in terms of practice visit, revenue, and e-commerce data, and how practices can leverage technology to embrace these changes and come out with a stronger business and client relationships.

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Introduction

Digital Convenience on the Rise

Consumer behavior, both in the pet industry and beyond, has been trending toward digital convenience for many years. The desire to be able to purchase products and services online and communicate digitally with businesses is becoming more prevalent. This expectation of a new type of consumer experience is evident in the changes seen in the veterinary industry — from the rise of online pet retailers to the emergence of telehealth, personalized apps, and text message communications.

During the COVID-19 pandemic, this trend accelerated. With more people at home — often balancing their working life with their children's online classes and adjusting to virtual meetings for both their job and personal appointments — the need for convenient solutions that fit into daily life has become paramount. Because the desire for convenience is nothing new, it's likely that these changes are here to stay in at least some fashion.

For veterinary practices that embrace the disruption of the pandemic and adopt solutions that bring added convenience to their clients, the outlook of the next decade is bright. Pet ownership remains on the rise, and the importance placed on pets and their impact on the happiness and mental health of their owners has only increased during this time of isolation — bringing with it a larger market and more spending on the products and services needed to keep pets healthy and happy.



The outlook for the next decade is bright for veterinary practices that embrace the disruption of the pandemic and adopt solutions that bring added convenience to their clients.

Pet Industry Prevails Despite Challenges

The veterinary services industry has seen healthy growth over the last five years, accompanied by significant growth in the pet sector as a whole. This healthy market has been driven by the 85 million U.S. families that own a pet — a figure that has increased by 2% every year since 2011.

Spending on pets has grown at an even faster rate, rising by almost 7% annually. The veterinary industry alone has grown ten times over the last three decades from \$4.9 billion in 1991 to an estimated \$43.6 billion in 2021, weathering challenges like the 2007 recession without pause.¹

In fact, the pet industry has been so historically strong that experts predicted it would take a severe economic downturn to curb its growth. And while the COVID-19 pandemic has caused the U.S. to experience just that, the changes it brought in terms of social distancing and shelter-in-place orders actually encouraged growth in specific pet industry segments instead of hurting it.



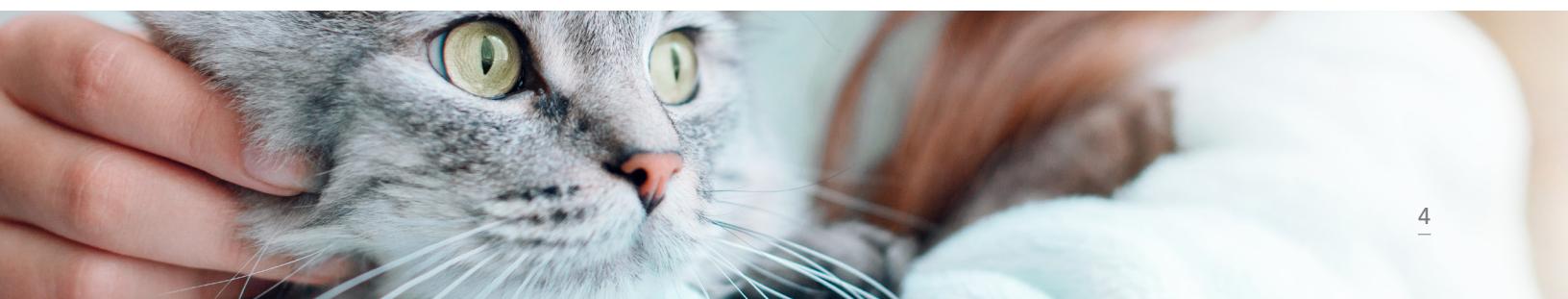
Trending Up

Spending on pets has grown at a fast rate, rising by almost 7% annually¹

More time at home led to a surge of new pet adoptions

More people seem to be opening themselves up to pet ownership than ever before. According to a report by Acosta, a sales and marketing agency in the consumer packaged goods industry, over 59% of millennial and Gen X households across both generations owned at least one dog before the pandemic. Among these groups, millennials were the generation most likely to own multiple dogs (42% of households surveyed), and Gen X households were those most likely to own multiple cats (53% of households).²

Pets were already a significant part of people's lives across America. Once the pandemic hit and social distancing policies were set in motion, the needle started to shift — a lot.





11.4 MILLION HOUSEHOLDS

acquired a new pet during
the pandemic

The American Pet Products Association (APPA) estimated that over 11.4 million households got a new pet during the pandemic, particularly among millenials and Gen Z. The APPA went on to predict that the growing pet population would drive the market forward despite the pandemic's destabilizing effect on the country's economy.³

To put things in perspective, the Society of Prevention of Cruelty to Animals Los Angeles, a nonprofit shelter, saw their rate of adoptions double in June 2020 from their usual rate at the same time the previous year. That equals 10 to 13 adoptions per day, according to the organization's president.⁴

All this adds up to a virtual tidal wave of adoptions. Anecdotal testimonies from people across the country suggest pets have been in such demand that breeders and shelters have run out, forcing some families to obtain their pets from out of state. While adoption numbers will eventually stabilize, the demand for food, accessories, and veterinary services needed to support these pets will continue to rise.

Isolation fosters a deeper connection with pets

The more time you spend with someone, the deeper the connection with them grows. This holds true for people, and it holds true for pets. While in recent years the number of pet owners treating pets as family and pseudo-children has grown even more prominent, the amount of time people are spending with their pets has grown more than ever before. Travel restrictions, working from home, stay-at-home orders, and social distancing guidelines all contribute to more time spent with the non-human members of the family.

In May 2020, Banfield Pet Hospital conducted a study on how increased time spent at home has affected people's relationship with their pets. According to their data, 33% of people surveyed feel more attuned to their dog or cat than before the pandemic began, and 65% of pet owners claim to show their pet increased affection.⁵

This increased emotional tie to pets has the potential for significant impact on the veterinary industry. Lifestyle Analyst Kristen Boesl of Mintel, a market intelligence agency, says "current owners are not hesitant about spending on their pets and will keep the pet market inching forward in the next five years." With 37% of pet owners paying more attention to their pet's personal well-being, including dental care, and 67% planning to change how they care for their pet, the opportunity for veterinary practices is great.⁶

“ Current owners are not hesitant about spending on their pets and will keep the pet market inching forward in the next five years.

— Kristen Boesl,
lifestyle analyst for
market intelligence
agency Mintel

Pet owners have a greater demand for convenience

As pet ownership becomes even more prevalent and pets are increasingly viewed as everyday members of the family, there is an increasing expectation that the services and products they require also fit into owners' everyday lives.

This idea isn't an entirely new one, as the veterinary industry has shifted toward more convenient solutions like telehealth, online appointment booking, and online shopping over the last few years. According to the Acosta report, one in five pet owners had already changed their buying behaviors to prioritize convenience before the impact of the pandemic.² When surveyed, millennials indicated that the top reason for changing their shopping behavior was convenience (49%).²

But whereas convenient options were an added benefit and differentiator for practices before the pandemic, changes in consumer behavior as a whole have made the adoption of these solutions a requirement to earn pet owners' business.

One example of convenient services that has seen accelerated growth during the pandemic outside of the pet health space and some form of adoption in the veterinary industry is the increase in purchase and pickup options provided by many retailers. As far back as 2017, Home Depot reported that 43% of their online orders were purchased online and picked up by customers in-store. And now, according to research collected by Kibo Commerce, retail customers are selecting this option four times more often than they were before the pandemic began.⁷ In the veterinary industry, this has manifested in the form of curbside pickup and the online ordering and delivery of medications, food, and supplies.



Convenience Is Key

According to a report titled "Pets Are Big Business," 1 in 5 pet owners changed their buying behaviors to prioritize convenience before the impact of the pandemic²

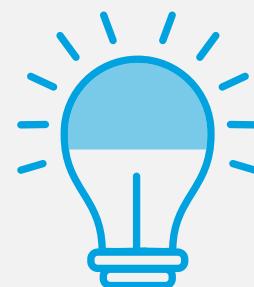


Smart Moves

The COVID-19 pandemic increased purchase and pickup options provided by retailers of all types. Veterinary practices adopted this in the form of curbside pickup and offering online ordering and delivery of medications, food, and supplies.

To Recap

These types of adaptations from veterinary practices, in conjunction with the increase in pet ownership and willingness to spend money on pet products and services, have proven critical to the financial success and health of the industry. If 2020 is any indication, the financial outlook in the years to come is strong.



Practice Data Shows Veterinary Resilience to the Pandemic

While the pandemic created huge operational challenges for veterinary practices and general uncertainty, a look back shows a veterinary industry that weathered the economic storm.

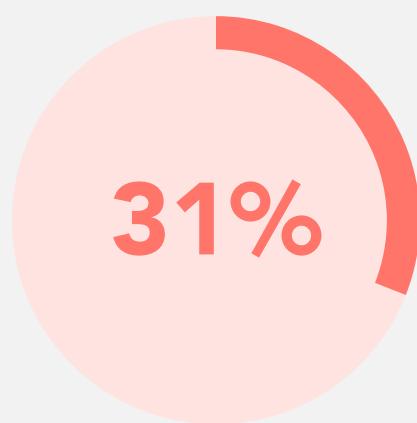
Throughout 2020, veterinary professionals had to adapt their business model and workflows quickly to account for new health and safety requirements, manage clients that at times had difficulty understanding or accepting the change in experience, and deal with the personal impact of the pandemic on their lives and that of their staff.

The silver lining for the industry, however, is that many of the industry changes the pandemic accelerated — like those covered in the previous sections — had a positive impact on the demand for veterinary services and products as reflected in practice visit, revenue, and product purchase data.

Growth of telehealth signals pet owner shift toward convenience

As practice owners became more comfortable with technology, more of them employed services like telehealth as the pandemic, closures, and pet owner shifts demanded it. Usage of telehealth among veterinarians wasn't very widespread prior to the pandemic. In 2019, a survey conducted by BMC Research discovered that only 18.5% of respondents used telehealth with any degree of regularity (with 5.3% saying they used it "often" and 13.2% "fairly often").¹⁰

More and more agile practices started offering telehealth early on in the pandemic to ensure pet owners did not cancel critical appointments and practices could meet the growing demand of new pet adoptions. Data from VetSuccess shows that veterinary telehealth adoption rose to 31% at the end of 2020.⁹



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Practice visits and practice revenue rebound and grow

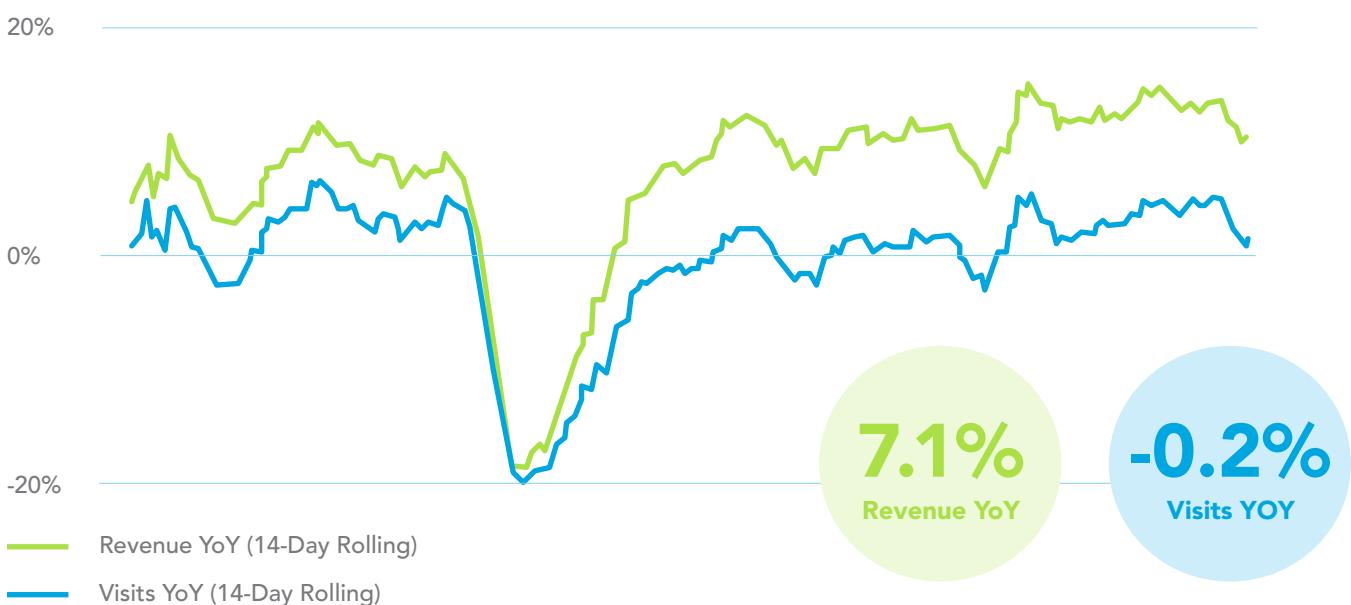
Across the industry, there was a brief dip in practice visits when the pandemic and stay-at-home orders first hit the United States in March and April 2020. This was to be expected, as April was a highly tumultuous period for all businesses as consumers tried to adjust to the new normal of the pandemic.

For veterinary practices, however, visits and overall revenue were quick to recover and are now sustaining at pre-pandemic levels. According to findings from veterinary data experts VetSuccess, as of December 2020 year-over-year veterinary visits were only down a fraction of a percentage and overall practice revenue was, in fact, up 7.1%.⁸ This recovery was driven by the quick adoption of convenient solutions, often made possible by leveraging existing technologies. For those practices that were ahead of the curve and already moving toward a more client-focused, convenient service offering like telehealth and online shopping, the recovery was even more swift.

The acceleration of pet adoption, especially that of puppies, also had a large impact on the recovery of the industry after its brief dip. While these new pets made up a small percentage of the overall market, the increase helped support the overall growth of the industry at a time when it was needed most.

Growth in Revenue and Visits

JANUARY 2020-DECEMBER 2020



VetSuccess' Veterinary Industry Tracker records daily revenue and visits from thousands of practices across the United States. Data from 2020 shows that overall practice revenue increased 7.1%.⁸

Changes in Juvenile Vs. Older Pet Visits

2020



According to data from VetSuccess, juvenile clinic visits peaked in May 2020 and stayed at that relative level for the rest of the year.⁹

Pet adoptions on the rise help resurrect practice revenue

The April 2020 cliff of visits and revenue rebounding is present when tracking the number of visits for both juveniles and more mature pets. However, the growth rate for older pets stabilized in the latter parts of 2020, while growth for juvenile clinic visits climbed to significant heights in May and stayed at that relative level for the rest of the year.⁹

The recovery of visits from both long-standing pet owners and new pets could be attributed to the increased time owners have been spending with the animals in their care. This prolonged exposure to their pets created more awareness of ailments, and concern for their own health and well-being also helped cement the desire for more preventative care for their pets.



While the pandemic created huge operational challenges for veterinary practices, the industry weathered the economic storm.

E-commerce and home delivery is in higher demand

A growing number of consumers are looking for alternative yet convenient ways of shopping in all aspects of their shopper journey, and COVID-19 compounded the need for this.

Home delivery is in particularly high demand, especially for businesses with physical locations. According to research conducted by SearchNode, 26% of all businesses with physical locations have chosen to introduce home delivery to complement their e-commerce operations during the pandemic and 31% have started to offer in-store pickup.¹¹ Another report, by Digital Commerce 360, added that more than two-thirds of shoppers are buying online for the first time and more than half are spending more online.¹²

When it comes to the veterinary industry, Vetsource® Home Delivery data from thousands of practices confirms this shift. When viewing the data over the last 12 months, there is a correlation between recovery and lift in overall practice revenue in 2020 and the increase in e-commerce order numbers and e-commerce order value.

For example, the number of e-commerce purchases in March 2020 was up 82% compared to March 2019, with total e-commerce order value up 94% in the same period. The number of pet parents buying online was also up 78%.¹³ Many of these pet owners are taking advantage of further conveniences by enabling AutoShip, which automatically ships products directly to the pet owner's residence.

Vetsource Home Delivery Orders

JANUARY 2019-DECEMBER 2020



The volume of e-commerce orders and number of pet owners ordering online through Vetsource Home Delivery grew significantly at the onset of the pandemic in March 2020.¹³



Opportunities for Practice Owners

Three Key Tips

The acceleration of pet owner growth, evolving pet-parent relationships, and increased focus on pet health provides veterinarians with a unique opportunity.

Those who are able to take both these changes into account — as well as adjust to shifting consumer behavior and deploy more convenient ways to visit and shop — will be able to enjoy unparalleled client loyalty and a sustained revenue stream for their practice.

Leveraging a service like Vetsource Home Delivery can help practices do just that. Three key tips will help you get started.

1

Provide more ways to shop

2

Create a seamless transition from in-clinic to at-home

3

Offer digital communication

1



86% of pet owners say practices with Vetsource Home Delivery are committed to making caring for their pet easier¹³



83% of pet owners view practices with Vetsource Home Delivery as a more full-service resource for pet care¹³

Provide more ways to shop

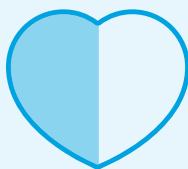
Product sales have always been an important component of a veterinary practice's revenue stream. But the way clients expect to be able to make these purchases has changed and requires practices to adjust to new consumer expectations.

Across industries, retailers and businesses have adapted to the way consumers want to purchase products. From the explosive growth of e-commerce as a whole to curbside pickup, more businesses are finding success in providing multiple ways to shop. According to Visual Capitalist, the U.S. market penetration predictions for e-commerce jumped from 22% pre-COVID to 34% post-COVID — marking 2020 as the year where e-commerce grabbed a much larger slice of the retail pie.¹⁴

While companies like Chewy and 1-800-PetMeds have taken full advantage of these e-commerce trends, practices can offer a unique experience for pet owners and compete in this space in a way that these major players can't — by providing their own online store as an extension of their in-person pharmacy and service offering.

By doing so, practices can assure clients that they are purchasing products their veterinarian trusts and recommends. Clients also benefit from convenience and competitive pricing and experience a seamless prescription approval process — whether they shop in your practice, online, or by phone.

And there is high demand for such services, especially now. According to Vetsource's 2019 Pet Owner Customer Satisfaction Study, 86% of surveyed pet owners say practices with Vetsource Home Delivery are committed to making caring for their pet easier, while 83% view practices with Home Delivery as a more full-service resource for pet care.¹³



Convenience for You and for Your Clients

Partnering with a company like Vetsource makes the setup and maintenance of an online store easy and provides the convenience clients want without the headache of managing it yourself.

2

Create a seamless transition from in-clinic to at-home

Technology has progressed in leaps and bounds, and so have pet owner preferences in working with it. Veterinary practices are able to leverage digital tools in-practice and throughout the entire pet owner experience to create unprecedented convenience for pet owners.

The key is to offer integrated services that only veterinary practices can provide — combining in-person or virtual visits with the product recommendation, prescription, order, and delivery process. And it doesn't have to be difficult or complicated. Such technology is available for veterinarians who know where to look and doesn't require significant cost investment.

For example, look to leverage solutions like Vetsource's ScriptRight® ePrescribing tool, which allows veterinarians to place a home delivery order for clients right from the exam room. This connects the treatment recommendation and at-home care experience in a holistic way. And when placing the order on AutoShip, practices benefit from an ongoing revenue stream.

ePrescribing is also a great tool to use during telemedicine appointments. When these two services are combined, clients experience a service level similar to what they'd expect in-practice but without ever leaving their home.

Also consider leveraging tools that put the control fully in the client's hands, like sending follow-ups in the form of emailed product recommendations via Vetsource's ScriptShare® tool. Clients simply click on the product link within the email and are taken online to check out. This is a powerful way to engage with pet owners who might not be ready to purchase their pet's treatments that day — especially when including a personalized note that reminds them why the product matters to their pet's health.



ePrescribing

Allows veterinarians to place a home delivery order for clients right from the exam room



AutoShip

Enables clients to create automated, recurring orders through your online store



Proactive Prescribing

Sends follow-ups in the form of emailed product recommendations



3

Offer digital communication and engagement

Customers have always valued proactive, outbound engagement as a way of offering relevant offers, promotions, and reminders. According to industry research by eMarketer, email has proven itself to be valuable to businesses, delivering a return on investment of up to 122%. That's more than four times the return of tactics such as social media, direct mail, and paid search.¹⁵

Since the pandemic, significant changes in business operations and the inability to visit in person has drastically increased consumers' desire to stay in contact with their favorite businesses through digital means. In a recent report, long-standing mass email service provider Mailchimp noted that while businesses sent emails with less frequency, people wanted to be contacted more. In March and April 2020, subscribers seemed to prefer more frequent weekly campaigns, as opposed to those that were spaced farther out.¹⁶ Customers are hungry for more information, whether that comes in the form of text message alerts, newsletters, or emails.

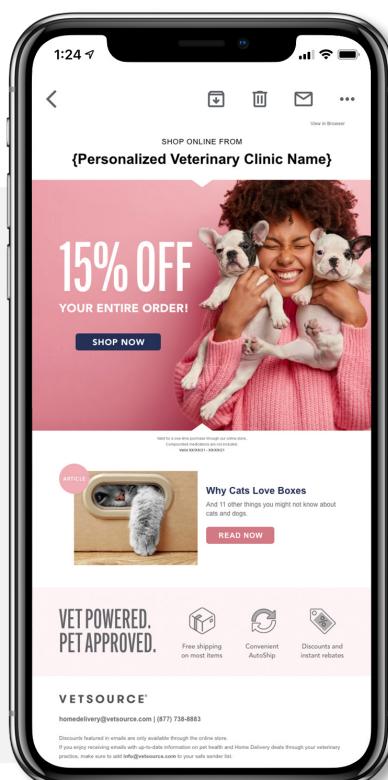
While many practices have adopted some sort of email communication with their clients, the opportunity to increase the frequency and impact of these messages has increased. Partners like Vetsource can supplement your offering with promotional and reminder email programs, without additional work from your staff.

Stay Connected, Drive Awareness

Using email services not only helps clients stay connected and drive awareness of your practice's services, it can be a great way to increase compliance and improve pet health by reminding clients when they've fallen behind in their pet's treatment plan. This increase in compliance and awareness can have a significant impact on your bottom line. In fact, Vetsource customers who use the email marketing service PetMail® drive 98% more revenue from their Home Delivery program than those who don't.



Email delivers an ROI of up to 122% — **more than 4x** the return of social media, direct mail, and paid search



Conclusion

Looking toward a bright future

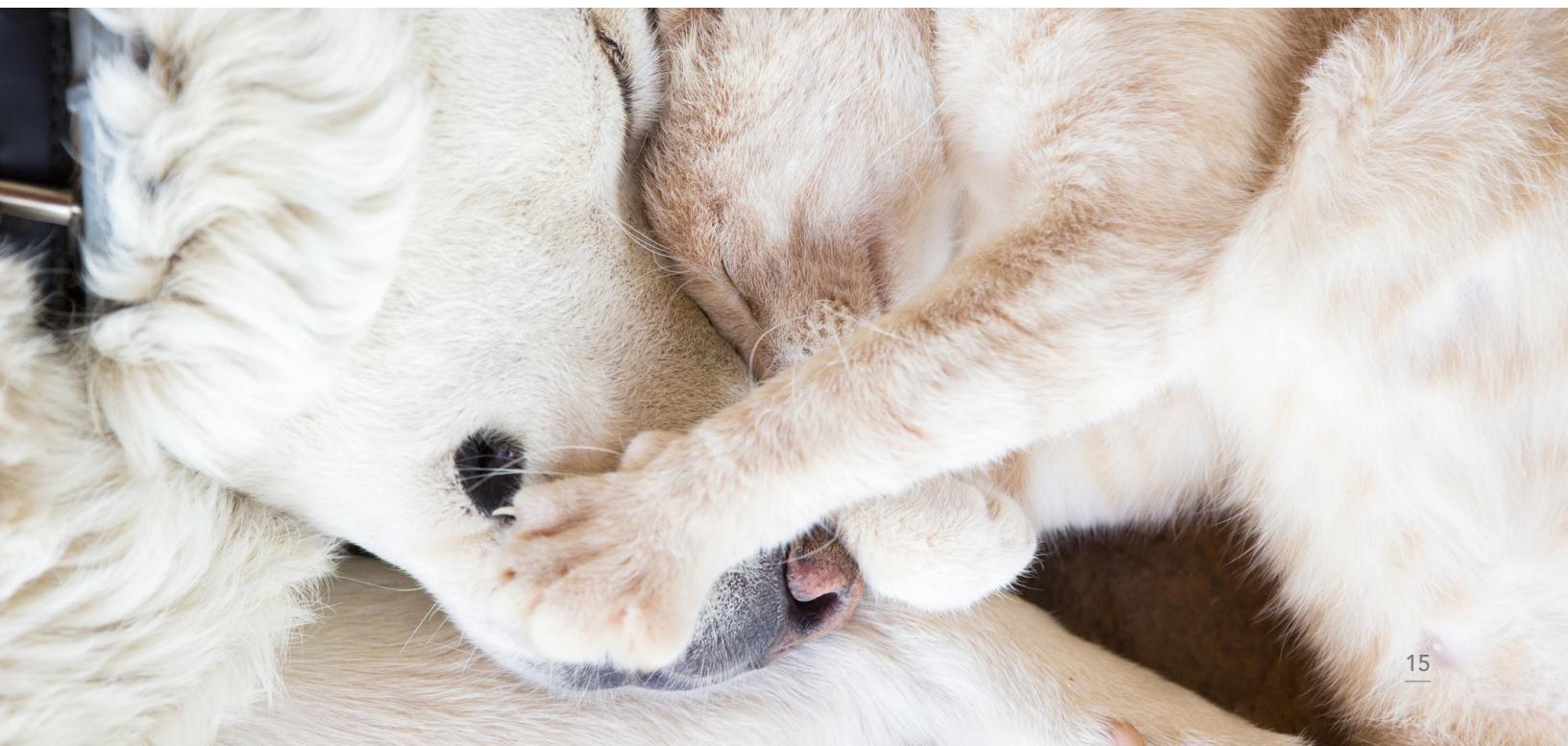
Consumer desire for digital convenience and connectivity is here to stay. In the veterinary industry, that presents opportunities for those who are willing and able to adapt. By looking at the accelerated changes during 2020 and finding ways to leverage technology solutions to provide more convenient solutions for pet owners, there is an opportunity to take advantage of pet ownership and consumer behavior trends that make the veterinary industry indispensable.

Look for credible partners who can help you accelerate your development in these areas and make it easy for you to do so. They should be trusted business partners committed to helping you generate and grow your practice's revenue and overall business.

Vetsource prides itself on being a true partner to veterinary practices by providing innovative technology solutions and support. With 95% of Vetsource customers feeling optimistic about their practice's outlook, the veterinary industry has a bright future to look forward to.¹³



With 95% of Vetsource customers feeling optimistic about their practice's outlook, the veterinary industry has a bright future to look forward to.



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About Vetsource

As the largest and most trusted Home Delivery provider to veterinarians, Vetsource partners with over 9,000 practices, providing tailored solutions that help them meet their goals. Its services empower practices and their clients to schedule medications and nutritional products for convenient home delivery with no shipping charges. Practices benefit from improved compliance, enhanced client relationships, and better control over providing the prescriptions and health care products their clients need.