

Supply and Demand

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I was recently in Greenbrier, West Virginia giving a presentation on the state of the veterinary economy. At the end of the talk, a veterinarian that had been in practice for many years began to talk about how a low-cost clinic had moved into her town and had taken many of her "clients." This is an often repeated complaint of veterinarians who are struggling in the market for veterinary services. I do understand this is occurring, and I do understand the frustration that this action is causing with veterinarians in established practices.

Noted author [Seth Godin](#) put it this way:

"Just because you have a supply (a skill, an inventory, a location) that doesn't necessarily mean you are entitled to demand.

The market decides what it wants. You can do your best to influence that choice, but it's never (alas) based on what you happen to already have.

There's a reason that garage sale prices tend to be pretty low. We can get pretty self-involved on supply, forgetting that nothing works without demand."

Having the veterinary practice and being self-involved in providing veterinary services does not mean that you will automatically capture demand. Remember that demand is what someone is willing and able to pay for a specific quantity of goods or services. Willingness depends on income levels and tastes and preferences. Ability to pay depends on the price of the good or service relative to the price of all other goods and services.

The Appalachian Regional Commission says there are 311 counties in the U.S. that are economically distressed based on measurements of unemployment, poverty and per capita income. About 10 percent of all U.S. counties fall into this category (3,144 U.S. counties or county equivalents). In 2014, 90 of the 420 counties (21 percent) in Appalachia were economically distressed, more than twice the national average. This suggests that the ability of people in Appalachia to pay for veterinary services at similar prices will be less than for the rest of the country generally.

However, tastes and preferences can, to some extent, compensate for low incomes in those households' ability to pay. Tastes and preferences for pets may rank higher (or lower) on the household budget in Appalachia than for the U.S. in general. If the preference is higher, pet owners may place greater importance on pet health and thus be willing to spend more per pet at lower incomes than other areas of the U.S. And, if they are less involved with the purchase of other goods and services such as eating out,

taking vacations or other forms of recreation or entertainment, they may be more able to spend money on veterinary services even with a lower household income simply because they have fewer items in their budget.

Unfortunately, the veterinary profession has not spent a great deal of resources trying to understand pet owners' demand for veterinary services. We simply don't know how sensitive consumers are to the prices of veterinary services. But one observation comes up at every speaking engagement. New, low-cost clinics are stealing the clients from well-established practices.

This suggests that some clients may have been struggling in their ability to pay for services or that perhaps they have found greater value in an alternative practice. The price for the same services was less, or the reduced price more than compensated for any reduction in the level or quality of services. The most important question is, "did the client perceive any difference in the level or quality of services provided?" Every client will have the ability and willingness to pay for a specific set, level and quality of veterinary services. Willingness can be improved through better understanding of the pet health care needs but the ability to pay will have a very definitive maximum.

Before we go on, let's be clear about prices. Prices should be set based on both the cost of providing the services and the demand for those services. Prices should be set and not negotiated. But costs and prices of services will vary widely depending on the level and quality of services provided. A basic set of services can be provided at a single price with additional levels or quality of services provided at higher prices.

A low-cost care provider enters the market and establishes themselves because they can. There was demand that they could meet, and did. This observation demonstrates that prices are an important characteristic of demand for veterinary services, at least for some pet owners. In a captive market where there are no other providers (or other providers that are perceived equals), not recognizing the importance of price and having only one level of service, with one price, segments the market into those that have the ability and willingness to pay and those that do not.

Those clients who have been able and willing to pay, because they feel obligated to provide care to their pets, may no longer be seen as willing when presented with a lower-cost alternative for the same perceived level of services. So the new-low cost clinic can capture those that were unable to pay and those who felt obligated to provide care but were troubled by the price of the services.

Once a low-cost provider has entered the market and gained a foothold, recapturing lost clients is an uphill battle. The key then is to maintain market share by understanding demand and addressing each segment of the market so that the low-cost practice is unsuccessful in establishing a presence. This multi-tiered pricing structure occurs in many markets: Car dealerships sell low- to high-cost vehicles, spas charge for various levels of services, banks have different types of credit cards and bank accounts, and cellular service providers offer multiple plans.

The American consumer is forced to make hundreds of economic decisions, and the number of those decisions will increase as real per capita disposable incomes continue to decline. Veterinary services represent one item in the consumer's budget, and we need to understand where that is and what services can be provided to maximize the health and wellness of the pet and be willing to provide that set of services at the price that each segment of the local population is willing and able to pay. Establishing one level of service and one price for those services will only net one segment of demand. And, as Seth Godin stated, "We can get pretty self-involved on supply, forgetting that nothing works without demand."