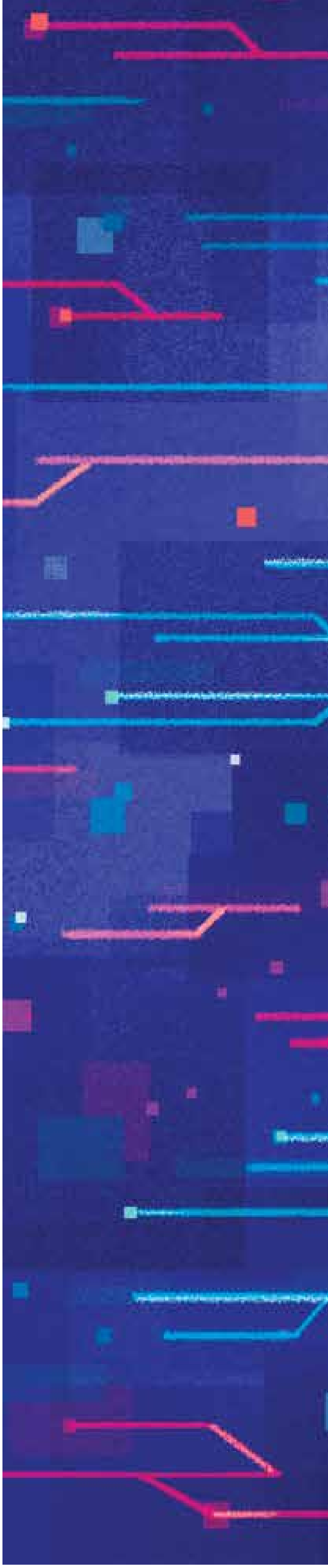

PRESCRIPTION FOR CHANGE

As client expectations evolve and margins tighten, more practices are reconsidering how much in-house pharmacy they really need.

BY ANGELA BEAL, DVM

When Dr. Christine Staten, owner of Adobe Veterinary Center and Adobe Equine and Livestock Veterinary Center in Tucson, Arizona, started planning a clinic remodel, she included space for a full veterinary pharmacy. "I kept making this huge pharmacy in the remodel," she said. "But then I made it smaller, and then I made it smaller, and then I made it a cabinet — because I knew that whatever we made it, we were going to fill."

Dr. Staten is one of a growing number of practice owners opting to outsource a significant portion of their pharmacy practice. Although her practices added an online pharmacy several years ago, they still stocked and sold a large inventory of medications and products in-house.

"All these pieces kind of came together in that moment," recalled Dr. Staten. "We're running around like crazy in the background trying to fill prescriptions. And I said, 'What are we doing? Why do we even have a pharmacy?' My pediatrician doesn't have a pharmacy. My doctor doesn't have a pharmacy. Why not send them to our online pharmacy, have it delivered to their house, and keep our lobby a little clearer?"

According to a Veterinary Hospital Managers Association survey, 87% of practices reported having an online pharmacy. However, many likely still fill a large portion of prescriptions. While practice owners know they should offer an online pharmacy option to clients, they may hesitate to fully relinquish their in-house pharmacy.

Many practices assume pharmacy sales are a major profit center, but the financial reality can be more complex. At a time when efficiency, digital convenience, and affordability are prioritized, is maintaining a large in-house pharmacy still the best strategy for veterinary practices?

With veterinary visits down and many clients having less discretionary income, a shift to outsourcing more medications could be part of a solution to a complex industry-wide problem. "I don't have the answers, but we just can't continue the way that we've been doing things," said Monica Dixon Perry, a certified veterinary practice manager and practice consultant with BerryDunn. "The time has come in our industry where something has to change."

Many pet owners also want more convenient options, such as online ordering, autoship, or a written prescription they can fill at an outside pharmacy.

COMMUNICATING THE TRANSITION

Whether a practice is just starting a partnership with an online pharmacy or moving more medications online, client communication is essential. Developing a communication strategy and preparing team members in advance can help ensure a smooth transition. Practices should be prepared to:

- **Explain why:** If clients seem hesitant to use an online pharmacy, team members should explain how the move benefits them. When clients understand their pet's prescriptions may be less expensive, they will likely be more accepting of the change.
- **Emphasize convenience:** Framing the change around client convenience can also help with acceptance. For owners of pets with chronic conditions, an online option can make requesting refills easier. Autoship ensures timely deliveries so pets don't miss doses, and eliminates the need for owners to travel to the practice to pick up medications.
- **Make it easy:** Online pharmacies can make prescription management easier for veterinary teams and clients. "One of the first things I recommend is making it as easy as possible for our clients to buy from us," said Nicole Clausen of Veterinary Care Logistics. "A lot of times, I find that a practice's online pharmacy is hard to get to. So how can we make that easy? Can we add QR codes to the bottle or the food stickers? Can we make the domain super easy to remember? Is it very clear on the website?"

For many practices, letting go of the idea that every prescription should be filled in-house may be one of the changes that helps the profession adapt to new financial realities while preserving the trust at the center of the veterinary-client relationship.

How Profitable Are In-House Pharmacies?

Pharmacy has historically been considered a core profit center for veterinary practices. "The industry benchmark is about 14% to 16% of your income should come from pharmacy," said Dixon Perry. "And then on the low end, another 9% from heartworm prevention and flea control. Combined, that's over 20% of income that we're talking about."

However, not all practices manage their pharmacies to meet these benchmarks. Nicole Clausen, founder of inventory consulting firm Veterinary Care Logistics, has worked with many practices to streamline their pharmacies. "If it's done right, a well-run pharmacy can be a profit center," she said. "But if it is not done well, it can be a detriment to the practice's financial health."

In addition to the obvious expense of purchasing medications, maintaining a pharmacy can involve many indirect costs that practices might not consider. Tasks such as ordering medications, unpacking boxes, stocking shelves, processing refill requests, and counting pills can account for a significant amount of staff time. "Indirect cost can be anywhere from 25% to 40% of the item," said Clausen. "If you look at food, where the recommended markup or MSRP is about 45%, if you have really high indirect costs, the profit on that is razor thin."

Additionally, shrinkage from expired stock, dropped pills, dispensing mistakes, and other waste can add up. "I don't know that everyone keeps track of their shrinkage," said Dr. Staten. "I require my manager to keep track of it, and it's tens of thousands of dollars. It's such a loss that when you compare it to the profit, I'd rather just have [clients] go to the online pharmacy."

Practices also might not consider the physical space their pharmacy takes up or how it could otherwise be used to generate revenue. In her revised floor plan, Dr. Staten plans to use the previously allocated pharmacy space for an additional exam room, which is likely to increase profit.

Is Holding On to an In-House Pharmacy Worth It?

Even for practices with a well-run, profitable pharmacy, failing to consistently offer clients prescription options may damage the veterinary-client bond and negatively affect their bottom line. Clients are increasingly price-sensitive, and medication costs can make up a significant portion of their invoice. Many pet owners also want more convenient options, such as online ordering, autoship, or a written prescription they can fill at an outside pharmacy.

Clausen pointed out that to provide the best service, practices need to know their clients. "The last thing I would want to do after going to the vet is drive 30 minutes into town to go to the pharmacy and stand in line to get a prescription filled," she said. "I would much rather get it right then and there — even if I have to pay more for it — and support my vet in the process. But I know that there might be other clients who are more cost-conscious and value money over time."

Clausen recalled a practice she consulted for that was in a unique location, with most clients within walking distance. The practice previously offered an online pharmacy option but eventually discontinued the service because clients preferred to pick up prescriptions in person to visit with staff.

On the other hand, a rural practice she worked with found that clients would rather fill their prescriptions through an online pharmacy than drive a long distance to the practice, even though their prices were lower.

Unsurprisingly, a 2024 study published in the Journal of the American Veterinary Medical Association found that clients who preferred an online pharmacy ranked price as more important, whereas those who preferred a veterinary clinic pharmacy ranked a personalized experience as more important.

The Benefits of Outsourcing

There isn't one right answer to the pharmacy question. However, outsourcing a larger share of pharmacy operations may yield unexpected benefits for clinics.

1 Improved Client Relationships

When veterinarians don't offer online options or charge a fee for a written prescription, it can reinforce the misconception that they are "in it for the money." However, when veterinarians are willing to work with clients and do what is most convenient for them, they become an ally. Asking clients, "Would you like us to fill your pet's prescription here, submit it to our online pharmacy, or write a prescription you can fill at the pharmacy of your choice?" can go a long way toward building trust.

"Everyone talks about fighting outside pharmacies and charging clients $5 if they want a written prescription," said Dr. Staten. "And this is breaking trust with clients in a profession where we have been so good at keeping their trust. We're a well-respected profession. Let's not mess that up by goofing around with $20 medications. Let them get it wherever they want."

THE LEAN PHARMACY

Nicole Clausen, founder of the inventory consulting business Veterinary Care Logistics, created the MERIT method to help practices decide which medications to keep in-house.

- **Markup:** Practices should retain high-markup items that generate profit, and outsource low-markup items.
- **Exclusivity:** Practices can charge more for veterinary products that aren't sold by online pharmacies. Medications that must be administered in the clinic, such as injectable products, should also be stocked.
- **Risk:** Products that are easily broken, prone to theft, or likely to expire before use require careful consideration. Product loss increases shrinkage, and it may be better to let an outside pharmacy assume this risk.
- **Immediacy:** Practices should stock products that clients will need immediately, such as antibiotics and pain medications.
- **Turnover:** High-turnover products should be kept in-house. Products with low markup but high turnover can be more profitable than low-turnover products with higher margins.

Nicole Clausen, founder of the inventory consulting business Veterinary Care Logistics

2 Better Pricing for Clients

As prices for medications increase, veterinary practices are forced to pass those increases along to clients. In some cases, clients may be able to purchase medications online at a lower cost. Instead of setting prices at a level that isn't profitable or refusing to approve online pharmacy requests, consider the cost benefits for your clients.

"If we can pass some relief on to clients by having prescriptions filled at these other resources at a fraction of the cost — because they're able to purchase in much larger quantities — maybe that's going to be part of the solution," said Dixon Perry.

Dr. Staten pointed out that wanting to save money doesn't mean clients want to shortchange their veterinarian. "If I'm at my eye doctor and they say, 'You should get this product,' and they walk out of the room, I'm looking it up on my phone," she said. "I'm not a bad person. I'm like, 'It's $20 here, and I can get it from Amazon for $17.' Click — bought it. I don't think about it beyond that moment. And I think pet owners are that way, too. They're not trying to take money from us."

3 Increased Spending on Additional Services

If a client's invoice doesn't include medications or supplies, they may be willing to pay for additional services for their pet. Although they may need to purchase medications after the visit, the cost doesn't factor into their veterinary bill. The perceived savings might mean they'll be more likely to approve wellness blood work or schedule a dental cleaning for their pet.

Deciding What to Outsource and What to Keep

For some practices, a hybrid approach — keeping a small in-house pharmacy and outsourcing a large portion of prescriptions — may work well.

For clients who struggle to budget for routine services, breaking the cost into monthly payments can mean that pets receive essential care.

"There's always going to be a place for pharmacy in veterinary hospitals," said Dixon Perry. "I don't think we'll ever remove it completely. If you have a pet that's really sick with a GI issue, or needing to be on antibiotics or anti-inflammatories, we can dispense those urgent care meds and send them on their way, but a lot of it could be outsourced."

For practices looking to transition more prescriptions to an outside pharmacy, Clausen recommends a gradual approach, starting with medications that aren't prescribed often, such as special-order and low-turnover items. She also recommends moving "nice-to-have-but-not-necessary" retail items to an online pharmacy, especially if they take up a lot of space.

Practices can use their practice management software's inventory features to determine which products move slowly and start transitioning them to an online pharmacy. Over time, practices can move more medications over, allowing time for their clients and team members to adjust to the new process. Partnering with a third-party pharmacy solution — such as Vetsource, Covetrus, or Vetcove Home Delivery — allows practices to keep some of the profits from medication sales while remaining relatively hands-off.

Tracking medication sales also allows practices to decide which medications are worth keeping in-house. "We're not throwing everything out the door," added Dr. Staten. "We're just being realistic and very strategic. We still sell some flea and tick prevention in-house. A lot of clients prefer to get it from us, and we can sell it at competitive pricing and still make a profit."

ALTERNATE VIEWPOINT

Matt Salois, president of Veterinary Management Groups

"There's no question that practices are up against companies with major advantages in price, convenience, and fulfillment, so it's fair to challenge whether traditional dispensing works as it once did," said Matt Salois, president of Veterinary Management Groups. "Where I'd be careful is treating pharmacy as only a shrinking profit center. It also plays an important role in medication adherence, client convenience, continuity of care, and keeping the practice connected to that part of the pet's health care journey."

Salois argued that, while separating medication costs from the veterinary invoice can make the visit feel more affordable at the moment, it doesn't affect the total cost of care.

"To me, the smarter model is modernizing the pharmacy, not abandoning it," Salois said.

How to Replace Lost Revenue From Outsourced Pharmacy Sales

The biggest concern for most practices is financial: If pharmacy revenue drops, what replaces it? However, practices may not lose revenue — they may just shift where it comes from. If clients have a budget for their pet's care, and pharmacy costs are eliminated from the invoice, that could leave room for additional services.

"I really do believe that it would just shift," said Dixon Perry. "If they're not having to spend money on the pharmaceuticals, or heartworm prevention and flea control, instead of putting off that dental prophy, they're going to be able to say yes. You're going to see an increase in your anesthesia, dentistry, surgery, and lab income."

Clausen added, "That might open the door for additional services, or maybe they have two dogs that they need to get taken care of, so they're able to bring both dogs in."

Practices seeking to implement specific strategies to recoup pharmacy revenue might consider the following three tips.

1 Refocus on Professional Services

Although clients might question prices for items they can buy elsewhere, they may be less likely to shop around for professional services. By focusing on medical services such as diagnostic testing, dentistry, surgery, and chronic disease management, practices may be able to recapture revenue lost on medication sales.

"If clients are having to make a decision between getting wellness lab work for their senior pet or getting heartworm prevention and flea control, let's keep the [services] in-house," said Dixon Perry. "We don't have to compete with the internet pharmacy for what our veterinarians go to school for — performing surgery, diagnosing, and preparing treatment plans."

2 Price Medical Services Strategically

Although across-the-board price increases are typically discouraged in the current economic climate, some practices may not be charging adequately for medical services provided by educated professionals. While clients can purchase vaccines from farm supply stores and parasiticides from online retailers, there is no substitute for a veterinarian's medical expertise. Practices should audit their service pricing and make strategic increases in underpriced areas to rebalance the fee structure.

"We charge more for our services," said Dr. Staten. "We charge for the stuff that matters in terms of our degrees and our expertise and why [the pet and owner are] coming to the vet in the first place."

3 Add Wellness or Subscription Plans

Wellness plans can help replace pharmacy profits with predictable recurring revenue. In light of the continued decrease in wellness visits, this strategy offers the added benefit of increasing compliance. For clients who struggle to budget for routine services, breaking the cost into monthly payments can mean that pets receive essential care.

Striking the Right Balance

Ultimately, the right approach and mix of in-house and outsourced medications will differ for each practice.

"It's not going to be one-size-fits-all," said Dixon Perry. "You have to look at the options and find what works best for your practice and your client base."

As the economics of veterinary practice continue to evolve, rethinking the role of the in-house pharmacy may allow clinics to operate more efficiently while strengthening the value they provide through medical expertise and client relationships. While pharmacy may always have a place in veterinary practice, for many clinics, the evolution of the veterinary pharmacy could mean keeping essential medications on the shelf and putting the rest in the hands of outside systems. TVB

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