Market Share Loss Looms for IDEXX Laboratories

Companies: ABAX, HSKA, IDXX, MWIV, WOOF, ZTS

July 12, 2013

Research Question:

Will IDEXX’s product and territory realignment and expanded sales force help it combat rising competition?

Summary of Findings

- Fifteen of 22 sources believe IDEXX Laboratories Inc. (IDXX) risks losing <5% to 15% of its 70% market share of the point-of-care (POC) veterinary diagnostic testing and equipment market. Seven sources expect market share to remain the same and one source is unsure. Veterinarians are generally positive about IDEXX’s quality products and services; yet four still believe the company will experience some share loss. These findings are in line with Blueshift’s February IDEXX report.

- Only half of all sources acknowledged or were aware of IDEXX’s new product, sales force expansion, and territory realignment initiatives. The sources who did comment viewed these initiatives positively and expect them to help reduce or curtail share losses.

- Abaxis Inc. (ABAX) is the competitor expected to gain the most market share. Heska Corp. (HSKA) and Zoetis Inc. (ZTS) were also mentioned as possible winners of additional share. VCA Antech Inc. (WOOF) may gain some share with its reference lab testing services.

- MWI Veterinary Supply Inc. (MWIV) is expected to gain market share in the distribution channel as the only large national supplier able to represent all the POC diagnostic equipment manufacturers.

- Views on increased competition leading to price declines were mixed, with 17 sources commenting. Nine sources expect pricing to remain flat, while eight sources expect prices to decline. IDEXX prices for X-ray services have declined because of competitive quality and pricing pressure.

Silo Summaries

1) VETERINARY PRACTICE PROFESSIONALS

Four of seven sources expect some market share losses for IDEXX as a result of the ruling requiring IDEXX to adjust one of its exclusive distribution agreements. If the increased competition, which is expected to produce some price declines, does lead to market share losses for IDEXX, they are expected to be minor. Only two sources seem aware of IDEXX initiatives to combat the competition and they think they will be effective. IDEXX has a strong positive reputation, offering quality products and services, ease of ordering, solid customer support, and a broad product offering. The two sources with negative comments cited issues with IDEXX’s software; equipment that is difficult to operate and produces inaccurate results, and poor follow-up after the sale. Abaxis is the strongest IDEXX competitor that could gain some market share as a result of the FTC ruling.

2) VETERINARY SUPPLY PROFESSIONALS

Distributors of veterinary supplies were split on IDEXX maintaining its market share. Three suppliers expect IDEXX to lose up to 5% of the POC diagnostic testing market over the next two years as a result of the FTC ruling. Three sources do not expect any changes in market share. Awareness of IDEXX’s new product and sales initiatives was limited to one source, but three sources admitted this kind of effort could help IDEXX maintain share. Pricing in the POC testing market segment is expected to remain firm by four sources, while two expect increased competition to lead to pricing declines. Competition is increasing with Abaxis and Heska gaining momentum.

3) COMPETITORS

All three competitors expect IDEXX to experience a decline in market share in the 2% to 10% range over the next two years. The expansion of the IDEXX sales force, reduction of sales territories and introduction of new products is viewed positively by these sources and is expected to help deter any additional market share losses. Abaxis, Zoetis and Heska are expected to gain some market share.

4) INDUSTRY SPECIALISTS

Five of seven industry specialists expect IDEXX to lose 5% to 15% of its POC diagnostic test market share over the next 12 months. Six of seven sources discussed IDEXX’s introduction of new products and expansion of sales staff. Two sources have not observed either initiative but think it is a positive, and four sources say it will help IDEXX protect its market share. Competitors expected to gain share include Abaxis, Heska and VCA, which also could gain additional lab work. Pricing if impacted by the increased competition will be minimal.
Background

During IDEXX’s recent first-quarter earnings call, management announced a major reorganization of its North American Companion Animal Group diagnostic field sales organization: the sales force will expand by 13%, cross-sell all diagnostic products and services, and service a smaller territory. These changes will allow for a four-week call cycle designed to promote a deep consultative/educational relationship between the clinic professionals and the IDEXX sales professional.

Consumer spending for pets is growing. According to a Harris survey of 2,634 adults in May 2012, 91% of those who own a pet considered them a member of the family. The total U.S. pet industry is growing and set to hit an estimated $55.53 billion in 2013, $14.21 billion of which is estimated to be spent on veterinary care. In 2012 the U.S. pet Industry was worth $53.33 billion with vet care representing $13.67 billion. Blueshift’s own May 16 PetSmart report concluded that premium pet food was seeing increased demand with tremendous room for growth.

Sources in Blueshift’s Feb. 22 IDEXX report said the company is at risk of losing at least some of its 70% share of the veterinary diagnostic equipment market now that its top distributor, MWI Veterinary Supply, is able to supply products to IDEXX competitors as part of the FTC settlement to restore competition to the industry.

Management for Abaxis, a major IDEXX competitor, commented on its new diagnostic equipment and supplies distribution agreement with MWI Veterinary Supply during an earnings call in April. Abaxis implied that sales through MWI were meeting expectations, with some recent sales activity attributed to a market share shift.

CURRENT RESEARCH

In this next study, Blueshift assessed whether IDEXX’s new products, sales territory reorganization, and expansion of the sales staff would protect its 70% POC testing market share.

Blueshift employed its pattern mining approach to establish and interview sources in four independent silos:

1) Veterinary practice professionals (7)
2) Veterinary supply professionals (6)
3) Competitors (3)
4) Industry specialists (7)
5) Secondary sources (3)

Blueshift interviewed 23 primary sources, including 12 repeat sources, and included three of the most relevant secondary sources focused on the veterinary point-of-care testing market.

Next Steps

Blueshift will continue to monitor the POC diagnostic market to try to determine the extent of the market share shift. We will research IDEXX’s new product and sales efforts to determine if they are succeeding in protecting its 70% market share position.

Silos

1) VETERINARY PRACTICE PROFESSIONALS

Four of seven sources expect some market share losses for IDEXX as a result of the ruling requiring IDEXX to adjust one of its exclusive distribution agreements. If the increased competition, which is expected to produce some price declines, does lead to market share losses for IDEXX, they are expected to be minor. Only two sources seem aware of IDEXX initiatives to combat
the competition and they think they will be effective. IDEXX has a strong positive reputation, offering quality products and services, ease of ordering, solid customer support, and a broad product offering. The two sources with negative comments cited issues with IDEXX’s software; equipment that is difficult to operate and produces inaccurate results, and poor follow-up after the sale. Abaxis is the strongest IDEXX competitor that could gain some market share as a result of the FTC ruling.

KEY SILO FINDINGS

Market Share
- 4 of 7 veterinary professions do not expect IDEXX to lose significant market share
- 3 sources think the increased competition will reduce IDEXX’s 70% POC diagnostics market share
- 2 sources specifically stated that IDEXX’s new products and larger sales force will help it maintain market share

Pricing
- 4 of 7 commented on pricing with 3 expecting increased competition to lead to reduced pricing and 1 expecting pricing to remain flat

Competition
- 3 sources commented on Abaxis positively and expect it to gain some share.
- 1 source commented negatively on Abaxis saying its tests are limited and it cannot be a strong competitor. This same source would like to see Heska gain market share, but its test accuracy, speed and software integration did not prove equal or superior to the competition
- 2 sources discussed the difficulty in unseating the incumbent POC diagnostic vendor because of habit and training

IDEXX Strengths
- 7 sources commented on IDEXX strengths including strong name recognition, quality products and services, ease of ordering, strong customer service and support, and a broad array of products and services
- 1 source said the size of IDEXX is both a strength because it offers opportunity, and a weakness because of the large bureaucracy

IDEXX Weaknesses
- 3 sources referred to software problems as a weakness
- 2 sources discussed a lack of follow-up by the sales force after the sale
- 1 source discussed the lack of accuracy with a specific test
- 1 source did not feel it was getting good quality radiology diagnostics
- 1 source discussed increasing cost

FTC Ruling Impact
- 3 of 7 sources expect little impact for IDEXX as a result of the FTC ruling
- 2 sources expect new practices to consider non-IDEXX solutions while existing customers are expected to remain loyal to their current system vendor
- 1 thinks the ruling will open up the market
- 1 was unaware of the FTC ruling

1. Owner and administrator of several veterinary hospitals in Florida

The FTC ruling will not affect IDEXX because it is an insignificant incident in a varying market. The source doubts that anyone can predict how market share will change for IDEXX and its competitors, although Abaxis, consumers, and distributors will benefit. Consumers will be able to take advantage of lower pricing and increased brand selection. IDEXX offers good products and its service is improving. However, IDEXX software can be frustrating to use because it doesn’t intermix with other software.

Market Share
- “IDEXX will not be threatened by this change. It will have no effect on them, and there will not be a huge shift in their reputation.”
- “In and of itself, the FTC decision might seem significant. But there are a lot of moving parts right now in vet medicine, and it is very difficult to tell how this will play out. It is difficult to quantify this ruling, because this is just one cog in the wheel. I couldn’t even make a guess [how their market share will change within the next year], and I doubt if anyone else can either.”

Pricing
“This will drive pricing down for the consumer. There will definitely be more competition, and the consumer will benefit.”

**Competition**

“Other companies, such as Abaxis, may benefit as they are represented by distributors.”

**IDEXX Strengths**

“We use IDEXX products at our hospitals because they are very good. I take a due diligence approach when ordering products, and IDEXX makes great products.”

“We just make a phone call and place an order. It’s that easy.”

“In the past, I would say that IDEXX was exclusive within themselves, and this was a weakness a few years ago. But they have integrated really well, now sales talks to customers, and they have recognized the need to be friendlier. Service is improving.”

**IDEXX Weaknesses**

“We use IDEXX software, and it integrates fine. But it can be frustrating because it doesn’t intermix with our other software. Maintenance can come in and fix our software problems, but they can’t touch the IDEXX software. I’m frustrated by the machines, all of them.”

**FTC Ruling Impact**

“Now we can have access to other products. There will now be a small amount of convenience to order full products.”

“There might be more opportunities from the service standpoint for the consumer. The distributor will expose the customer to other products. They are already experts in multiple products, although initially they may not be as knowledgeable about the new products. But distributors will have a bigger voice.”

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2. Owner and lead DVM at veterinary hospital in California; repeat source

IDEXX will not be affected by the FTC ruling. Market share losses will be slight, and the change will not be visible for six months to a year. IDEXX prices may come down to the competition level. Vets newly exposed to Abaxis may be inclined to try some of their products, and Abaxis market shares may increase. IDEXX has a strong name brand and strong outside lab services, although they are weak on customer service. Overall, vets are not aware of products that are not presented by their distributors.

**Market Share**

“IDEXX will probably keep going as it always has. I doubt if they will lose much market share, although they really should.”

“If their market does change, it will be slight, and you wouldn’t notice any difference for at least six months to a year. It takes time to read about new equipment, talk to colleagues, learn what is best.”

**Pricing**

“IDEXX is overpriced. It always has been. Their prices should come down to the competition, which are just about equal.”

**Competition**

“I would hope that Abaxis’ market shares increase, and they might since the distributors can now carry other brands.”

“Once vets are exposed to Abaxis products, they will be inclined to switch. Their eyes may open when they see new products.”

“Overall, Abaxis has a better reputation. They care more about their customers, and this is reflected in their follow-up to products that we buy.”

**IDEXX Strengths**

“IDEXX has really made a name for themselves.”

“They are very strong in the outside lab services offered.”

“They were able to get by with a monopoly for many, many years before someone pulled the switch on them.”

**IDEXX Weaknesses**

If their market does change, it will be slight, and you wouldn’t notice any difference for at least six months to a year. It takes time to read about new equipment, talk to colleagues, learn what is best.

Owner & Lead DVM
Veterinary Hospital, California
IDEXX Laboratories

- “I have not seen or heard of any new product initiatives, nor have we been contacted by their sales force, at least not for a long time.”

**FTC Ruling Impact**
- “I would imagine that few vets would be aware of any changes. We know the products that we use or are shown by our distributor. Distributors are a big part of sales.”

**Miscellaneous**
- “We have always used Abaxis products. They are priced better, and we believe are more accurate. Their software programs seem to be less buggy.”

3. **Practice manager for a veterinarian clinic in the Midwest**

This veterinarian practice has been using IDEXX POC products and services for seven to 10 years. The practice manager wasn’t aware of the FTC ruling but felt IDEXX can deal with increased competition. IDEXX’s strengths are its communication and customer support.

**Market share**
- “No [the FTC ruling won’t affect IDEXX’s market share] because I think [IDEXX] is strong enough to have competition. They already have the competition. ... The competition is out there; if someone wants to use the competition, they can use it. The reason they are not using the competition is because it’s not up to IDEXX’s standards.”

**Pricing**
- “We haven’t been in the market for anything new, so I don’t know [about pricing changes].”

**IDEXX Strengths**
- “I think their strength is that they have good communications with their clinics, they have good customer support—that is the reason that we switched over to them originally and have had no reason to complain about them since.”

**IDEXX Weaknesses**
- “Not that I can think of right now, no.”

**Miscellaneous**
- “[IDEXX is] always presenting new products to us, but I don’t feel like it’s in a forced fashion.”
- “[IDEXX has] been our lab of choice for at least I’d say seven to 10 years. We have their computer system, we use their outside lab, we have their inside lab equipment as far as our chemistry lab goes—we have their chemistry machine here .... We have the SNAP tests ... .”

4. **Veterinarian and practice owner in Northern California; repeat source**

IDEXX should be able to maintain its market share as long as it continues to provide quality products and service. His practice buys IDEXX diagnostic equipment and prefers this equipment over competitive diagnostic tools. What’s more, old habits die hard with veterinarians, who are not inclined to buy a new brand of equipment due largely to the time invested in training technicians to use new diagnostic machines. The source believes IDEXX may not secure as much new business following the FTC ruling, but says current veterinary customers will likely stick with the company because they are often resistant to change.

**Market Share**
- “Sure, IDEXX’s new product additions and an expanded sales effort will help the company maintain market share if they continue providing service and quality diagnostics. We have always invested in new products to improve our diagnostics.”

**Competition**
“We had products from two major competitors and we liked IDEXX products better. The service was better and we felt the diagnostics were better.”

“There is a certain amount of training that goes into its equipment, and we have technicians. Once we get everybody trained on a brand of equipment, we hate to go through it again. That is what happens here.”

**IDEXX Strengths**

- “We are so comfortable with IDEXX, so we will continue to buy from them unless something changes in their service. Old habits die hard—unless we find really good deals.”
- “IDEXX’s quality service is its biggest positive, and its in-house diagnostics are very good.”

**IDEXX Weakness**

- “We digitally sent X-rays to IDEXX’s radiologists to be analyzed, and I did not like that part. I did not feel like we were getting good quality diagnostics. Now I use a local radiologist vet that I know.”

**FTC Ruling’s Impact**

- “IDEXX’s market share could be threatened by the FTC ruling, but like me, most vets are comfortable with their whole systems and they will not change. IDEXX might not get incoming business, but their current business will remain stable.”

5. **Veterinarian for a national emergency and specialty veterinary chain; repeat source**

As a medical oncologist who uses IDEXX products daily in her practice, she say IDEXX has quality products and customer service, but that veterinarians in general are always looking for a less expensive option that carries the same quality. So she believes IDEXX’s market share may drop slightly as veterinarians shop around. She uses IDEXX products so much that she is unaware of competitors. She says IDEXX’s strength lies in its longevity and the fact that they are known for quality products and customer service. IDEXX needs to continue to stand behind their products and let clients know what products are available.

**Market Share**

- “I think IDEXX’s new product additions and expanded sales effort will help the company maintain market share. It helps them to stand behind their name and helps if they make sure we know what products are available.”
- “IDEXX’s market share will change. I do not think it will shockingly drop, but it will change now.”

**Competition**

- “We will still buy IDEXX products and will be open to new providers. We shop around for other places as well, but we are buying plenty of IDEXX products. I do not think things have changed all that much. Our purchasing has not changed.”
- “I am seeing very much the same in terms of purchasing decisions from my colleagues.”
- “I use IDEXX so much that I do not know the other competitive companies, other than other labs.”
- “If the cost is different, customers will then flee. Vets will go to things that are the cheapest but have the same quality. We will go to whoever is the cheapest. IDEXX is known to have better quality.”

**IDEXX Strengths**

- “I purchase IDEXX POC diagnostic testing equipment, supplies, and services. IDEXX offers quality and reliability.”
- “IDEXX’s strength is in how long they have been around. There is a quality associated with their name and their accessibility. From a customer service standpoint, they are available.”

**IDEXX Weakness**

- “Essentially costs go up.”

**FTC Ruling’s Impact**

- “I do not think there will be a whole lot of change unless someone makes POC tests that will be cheaper. But in terms of the lab equipment, I do not see people rushing out to change the machine.”

**Miscellaneous**

- “There are always new tests coming out and more in-clinic testing. If IDEXX keeps up on that, it will be helpful. They are able to glean on to some of the other research and make some of those POC tests available.”
6. Veterinarian and practice owner in Southern California; repeat source

A disgruntled former customer of IDEXX, she believes the company’s market share will be threatened by the FTC ruling and the fact that veterinarians now have options to shop for other brands. She has switched to Abaxis, which she says provides a more accurate machine than IDEXX and has responsive sales people. IDEXX’s strength lies in its sheer size, but she says that can also be a detriment since the company did not care about keeping her happy. The company has numerous weaknesses, including old and hard-to-learn technology that gives inaccurate readings. She says she will not switch back to IDEXX after a very negative experience.

Market Share
- “Yes, I do think IDEXX’s market share of 70% of the POC market will be threatened by the FTC ruling and increased competition. It is not just the ruling—it is opening people’s eyes that they can do other things.”

Pricing
- “I do not know how the FTC ruling has impacted prices of POC diagnostic equipment, because the stuff is so outrageously expensive. I would hope in the future that lab equipment would not cost $25,000. I would think that with less monopoly and more competition, that the prices would be less.”

Competition
- “When I opened the practice I did not know about other equipment because at the veterinary hospital, everybody had IDEXX. Once you start realizing there is other equipment, you would consider buying it. Previously the distributor said they were only allowed to sell IDEXX. So if I could call and now get my Abaxis from the distributor, then every vet should share that same relief.”
- “Abaxis has the same kinds of sales people—they are responsive too.”

IDEXX Strengths
- “IDEXX is so big, so they have the opportunity. Big is also bad because when I wanted my money back, I had to go through all of these channels. They did not care about keeping me happy at that point.”

IDEXX Weakness
- “We have an Abaxis coagulation machine, which was our last piece of IDEXX equipment to replace. Now we are looking to get rid of whatever we have left of the IDEXX equipment, or sell it on eBay. It is not worth anything. I still have the IDEXX coag machine, but now have the new Abaxis coag machine. I had a cat I had to give blood thinners to, and I can check the clotting on each machine, and so when I compared the Abaxis machine to the IDEXX machine I was floored. IDEXX was inaccurate. Abaxis has been good. This is all critical stuff. When I have a dog and the dog has a white count of 30,000, I do the blood work and if the white count drops to 28,000, it is still way high but going in the right direction. And if I was given some erroneous number, my client would be finding another vet.”
- “In three years I could not show a tech how to use the IDEXX equipment. I could show a 10-year-old how to use the Abaxis equipment.”
- “IDEXX’s equipment is old technology. This cat we had came from another ER and when they sent the blood work, they had moved up in technology. IDEXX’s equipment is 1980s technology. This thing still takes floppy disks. So they are manufacturing old technology—that is their weakness. They are hanging on to this one piece of equipment, a chemical analyzer.”

FTC Ruling’s Impact
- “People who are starting practices that are my age or younger are definitely not going to be looking just at IDEXX. And people who are used to IDEXX—old habits die hard.”

Miscellaneous
- “At this point with me, IDEXX could send all the people they want knocking on the door and it will not influence me, but when I opened my practice, I had the IDEXX guy holding my hand. Now that I am on the other side and know that there are other companies and that IDEXX ripped me off, they can send anyone they want here—and they have actually. And that has not changed my mind.”
- “Companies like IDEXX can always add more tests that we do not currently have. For example, I can now do a thyroid test on the Abaxis and I could not do that before.”
7. Director of a large vet hospital

This director vented frustrations with IDEXX’s Cornerstone 8.3 upgrade, and with poor service despite his status as a large customer of the company’s services and products. Heska could gain business, but their comparable products fall short and he’s hesitant to switch. The FTC settlement has had little impact, with IDEXX’s size a protection against significant share loss.

Market Share
- “I would like to say yes [they’ll lose share] but probably not. They’re too big and if they lose anything it won’t be enough to affect them.”

Pricing
- “I haven’t heard anything about pricing. I don’t see it affecting pricing at all.”

Competition
- “My problem with Abaxis is you can’t run individual tests and I have Cornerstone software with IDEXX, so I’m stuck.”
- “I would like to say Heska will gain, but I had Heska come in and do a side-by-side comparison. Unfortunately, they fell short on their test accuracy and speed and, of course, the integration with software. I think if it’s going to be anyone, it will be Heska. I don’t like their contracts either and I don’t want to get roped into a contract that’s worse terms than I already have. ... I don’t think [Heska improving their products] is going to be really quick. We did the comparison about a year ago and I haven’t heard from Heska about that. My suspicion is they haven’t corrected any of it. I see a year or two years before they can. And as for the software integration, IDEXX doesn’t play well with other companies. If you have IDEXX, you’re screwed.”
- “I don’t think Abaxis is big enough to [be a strong competitor], to have enough to back themselves.”
- “I hate to sound totally negative; however, I have pretty much the same thoughts on Antech VCA as I do on IDEXX.”

IDEXX Strengths
- “For IDEXX, the simple thing is they have everything to offer you.”

IDEXX Weakness
- “But obviously from what I’ve said, once they get you they forget about you.... I spend $150,000 to $200,000 with all their products and I’m basically ignored by them. I use their software, all the kits, their outside lab and all their SNAP tests.”
- “I don’t think [the sales reorganization] is going to matter. It doesn’t make a difference if I have one rep or not, I still don’t see them.”
- “I’ve had our computer system upgraded and it’s horrible. If I could figure out how to go back to the [earlier version] I would. Anyone you talk to with version 8.3 will tell you about tons of problems.”

FTC Ruling’s Impact
- “It’s not really a big deal. But when it comes to IDEXX there’s nothing I feel excited about. Their customer service, their technical support, the way they treat their big customers ...”

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2) VETERINARY SUPPLY PROFESSIONALS

Distributors of veterinary supplies were split on IDEXX maintaining its market share. Three suppliers expect IDEXX to lose up to 5% of the POC diagnostic testing market over the next two years as a result of the FTC ruling. Three sources do not expect any changes in market share. Awareness of IDEXX’s new product and sales initiatives was limited to one source, but three sources admitted this kind of effort could help IDEXX maintain share. Pricing in the POC testing market segment is expected to remain firm by four sources, while two expect increased competition to lead to pricing declines. Competition is increasing with Abaxis and Heska gaining momentum. Suppliers expect IDEXX’s strengths including quality products, its strong positive reputation, integrated practice management software, ease of use, financial incentives for vets and proprietary tests to keep it in its industry leading position. Challenges facing IDEXX include its high prices, vets becoming more open to other companies’ products, the perception of an inferior sales force with high turnover compared to the competition, and offering software that is not technically current.
KEY SILO FINDINGS

Market Share
- 6 sources were split on IDEXX maintaining its POC market share. 3 sources expect no change in market share while 3 expect a decline for IDEXX of about 5%
- 1 source said IDEXX’s market share of online software will increase as it is very popular
- 1 source said IDEXX has a competitive advantage with exclusive tests and complete integration with its software

Pricing
- 4 of 6 expect prices to remain flat; 2 expect the additional competition to pressure prices

Competition
- 6 suppliers expect the POC diagnostic market to be more competitive
- 3 sources expect direct IDEXX competitors, including Abaxis and Heska, to gain share. Abaxis is considered distributor-friendly and one source expects it to gain the most share
- 2 sources noted that vets may want to switch vendors, but will face difficulty because of IDEXX’s integrated products

IDEXX Strengths
- Quality products, strong positive reputation, integrated practice management software, ease of use, financial incentives for vets and proprietary tests

IDEXX Weaknesses
- Inferior sales force offering limited follow-up after the sale with high turnover rates compared to the competition
- High prices; an arrogant, controlling attitude and poor relationships; and treatment of distributors
- Software is old technology

FTC Ruling Impact
- Vets are expected to be more open to considering different companies for their POC diagnostic testing needs
- Distributors and sales professionals will be making more calls on veterinary clinics now that the market is more open

Miscellaneous
- Continued product innovation and software improvement is IDEXX’s avenue for growth

1. Regional sales manager for large distributor

In poorer rural areas, IDEXX only holds 30% of the market because their products are too expensive. The source does not expect market share to change in the next year. Drug pricing increases once a year, but it is unclear how product pricing will shift. Doctors love IDEXX and are loyal to the company because the products are good and offer extra value. IDEXX could benefit from developing a more loyal work force. The success of its distributors depends on IDEXX’s success.

Market Share
- “In our rural area, market share plays out like this: Abaxis, 50%; IDEXX, 30%; and Heska, 20% or less. This will stay the same; it won’t change. IDEXX does have 70% of the market in large populated areas.”
- “IDEXX’s market share in online software will increase some. In some parts of the country, this is very popular. Some clients like to write notes on profiles to the vet.”

Pricing
- “I’m not sure how pricing will go. This will depend on how competitive people want to be. On the drug side, there is usually an increase once a year. If pricing is lowered, the quality must stay the same.”

Competition
- “Nationally, there is still a big push for us to work with IDEXX, and our IDEXX products won’t change. We will also offer a complete portfolio of products from Abaxis, Heska.”

IDEXX Strengths
- “IDEXX’s products are good and add extra value to what the vet pays for. Doctors love IDEXX.”

IDEXX Weakness
IDEXX Laboratories

- “The competitors beat out IDEXX on the rep side. There is a lot of turnover at IDEXX, while competitors have more reps and less turnover. IDEXX needs more reps on the road; they need a more loyal workforce.”
- “Price is always an issue.”

**FTC Ruling’s Impact**
- “Veterinarians will be open to new products and services, but they are loyal and think IDEXX is a great product.”

**Miscellaneous**
- “I’ve heard about new IDEXX products, and we had a conference call on extending services to clients, but that was an online deal.”
- “I’m not sure about any future growth for IDEXX—maybe software to connect the vet to clients.”
- “IDEXX is important to us, and our success depends on their success.”

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### 2. Veterinarian and marketing executive for large distributor

It will take at least a year before IDEXX’s market share drops 5% or less. The point of care sales process is lengthy, and changes are slow. Any lower prices will be passed along to the vet, not the consumer. Vets may want to switch from IDEXX products, but they may run into compatibility issues. IDEXX has a strong reputation, with good practice management systems and business analysis data. However, the company is considered arrogant and controlling.

**Market Share**
- “IDEXX’s market share will be put at risk a bit, 5% or less over the next few years. They will continue to sing out of the hymnal. POC sales are really a longer sales process. It could take months to make a decision, and you won’t see changes for at least a year.”
- “In the diagnostic arena, IDEXX has the most to lose; Abaxis has the most to win. VCA is really neutral because they compete in the reference labs, which are not driven by distributors.”

**Pricing**
- “Maybe prices will lower. I’m not sure, but my gut says no.”
- “Any sales will stop at the vet level and will not be passed onto the customer.”

**Competition**
- “It may be hard for some vets to switch from IDEXX, to cross that barrier. They may want to switch, but may have compatibility issues.”

**IDEXX Strengths**
- “IDEXX’s strengths are their reputation and integration of practice management systems, the ability to bundle all the systems together.”
- “Their sales force is another plus and also business analysis data.”

**IDEXX Weakness**
- “IDEXX sees everything through IDEXX rose-colored glasses, and the world just doesn’t work that way.”
- “Some vets consider the company arrogant and controlling.”

**FTC Ruling’s Impact**
- “There are three big distributors, and there is no reason why they should remain exclusive.”
- “Vets will consider alternative products. Although IDEXX had exclusive rights, vets still considered competitive lines.”
- “Vets may see distributors more often now. I’m not sure.”

**Miscellaneous**
- “Companies are always coming up with something new, the next wave, although I can’t say that I’ve noticed anything appreciable from IDEXX.”
- “IDEXX is not as financially rewarding for distributors.”
- “Water and milk testing is a small portion of the IDEXX business. New diagnostic tests are a possibility.”
3. Inside sales representative for large distributor

IDEXX’s market share will not be affected because doctors prefer their products. Customers may continue to pay IDEXX’s prices in order to acquire better products, although some customers may have problems with compatibility issues. The source has not heard about the FTC ruling; her company still has an IDEXX contract and does not sell Abaxis.

Market Share
- “IDEXX will stay at 70%. The ruling won’t make a huge difference. Clinics use what they want to use.”

Pricing
- “It’s hard to say about prices. IDEXX may stick with what they have and see how it goes. The ruling may not make a difference.”
- “We are set in IDEXX pricing, and we will stand behind it.”

Competition
- “Possibly competitors will increase market share. A lot of clinics change equipment for one reason or another. Either they want to upgrade, or want cheaper tests, or maybe they get a kick-back from the vendor. There could be lots of reasons to switch.”
- “There are thousands of vet supplies, and IDEXX products sell very well.”

IDEXX Strengths
- “We mostly sell IDEXX because it is a good product.”

IDEXX Weakness
- “Some people may have a problem with compatibility issues, but our customers seem happy.”

4. Regional sales manager for large distributor

IDEXX will lose 5% market share overall once distributors start stocking other brands, and they will be forced to seek out new customers and become more distributor-friendly. Abaxis’s market shares will increase because the company cares about their distributors. IDEXX will keep its higher prices in all areas except digital radiography, where it will be forced to meet competitor prices. The company is very strong in diagnostic tests, although some products tend to be inaccurate. IDEXX deservedly has a bad reputation of not following through after a sale.

Market Share
- “In the next year, IDEXX will lose closer to 5% of market share; 7% is maybe too high. They will lose some, but not a ton. In the past, we didn’t realize there was anything else to sell because we didn’t have anything else to sell. IDEXX was that powerful. But not everyone wants to buy other products.”

Pricing
- “The ruling has not affected the prices so far. IDEXX has managed to keep its prices, and the competitors have kept theirs.”
- “The only change that has happened is in digital radiography or X-ray. In that area, IDEXX had to decrease their prices to meet those of the competitor because the competition has a good machine.”
- “The current economic climate will make it more difficult to buy the high-cost machines. That has been a definite change.”

Competition
- “The smaller companies, like Abaxis, may get more attention. Abaxis will gain a lot, big time.”
- “Abaxis is very distributor-friendly. They never fail to return a call. They are in it for their distributors, but IDEXX will cut off their sales.”

IDEXX Strengths
- “IDEXX has dominated the market at this point. They are very strong in diagnostic tests or SNAP tests, and they make testing for parvo [canine parvovirus] or feline leukemia very easy.”
- “If you buy an IDEXX blood analyzer, you have to purchase IDEXX cartridges. Nothing else will work on an IDEXX. The company really thought this through to keep a corner on the market.”

IDEXX Weakness

The only change that has happened is in digital radiography or X-ray. In that area, IDEXX had to decrease their prices to meet those of the competitor because the competition has a good machine.

Regional Sales Manager
Large Distributor

Blueshift RESEARCH
1 Ferry Building, Suite 255, San Francisco, CA 94111 | www.blueshiftideas.com
“They do not follow through with vets after a sale, the training they provide after a sale, or the distributors. They’ve made a sale, and they are onto the next sale without ensuring that everything is going OK. This gives IDEXX a bad rap.”

“Vets either like IDEXX for their diagnostics or they don’t. But half of it doesn’t work right, and some vets may not want to admit they made a bad choice.”

“IDEXX considers distributors as necessary evil, but they need to build stronger, better relationships. They have tagged onto distributors, but they haven’t done a good job. We get them into clinics, and we get the vets what they want. Sure, IDEXX can take our contacts and run, but this info is universal.”

“They need good sales reps, but once they get them, the reps are gone. They have high employee turnover.”

“IDEXX has cornered the software with Cornerstone, but it is an old program, and for the first time in a long time, they are up against a wall. They will need to seriously look at this.”

**FTC Ruling’s Impact**

“There is so much IDEXX out there that there will still be the perception that IDEXX is the brand to be with. This may change, and it will be harder for IDEXX to keep up than in the past.”

**Miscellaneous**

“I haven’t noticed any change in new IDEXX products, and they certainly haven’t expanded their sales force around here. In our rural area, IDEXX’s sales force is really low.”

“IDEXX didn’t really have a monopoly, but they gave vets the opinion that only IDEXX was good, even though others had good products as well.”

“IDEXX had such a hold on the distributors for so long, we didn’t have a choice on what to sell.”

### 5. Veterinary Supply Professional

The FTC ruling won’t reduce IDEXX’s market share. This source hasn’t noticed new IDEXX products or an expanded sales force. IDEXX’s strengths include the quality of its product and its capacity to give financial incentives to veterinarian practices.

**Market Share**

“I don’t predict much of a change [in IDEXX’s market share].”

“[The FTC ruling] should [affect IDEXX’s POC market share], but I don’t think it will. I think IDEXX is good at what they do—I don’t see much changing in that segment of the market unless someone comes up with an offering that is really able to compete with [IDEXX’s] across the board. [IDEXX] has some almost exclusive-type products right now, and tying into their software helps them.”

“If one of the other companies would come out with a [new] product arrival or [one] to compete with IDEXX’s exclusive product, that could impact [IDEXX] but as long as they stay ahead of the game [in that way], they should be all right.”

**Pricing**

“I don’t think [the FTC ruling] has [impacted the prices of POC diagnostic equipment].”

**Competition**

“I think vets will be open and ... have always been open to new products and services. I don’t think [the FTC ruling] changes things dramatically—from a distribution standpoint it does, but for a veterinarian not so much.”

“[For a distributor, there is [an issue with the benefits of IDEXX’s integrated products] because it makes a bit more difficult to sell products to the end user. IDEXX seems to be able to tie up customers for a period of time—I think there are most likely certain agreements [that do that] but the [IDEXX products and services] also tie into their practice management software.”

“No, I have not [noticed new IDEXX product additions and an expanded sales force], but I think it will help contribute to [IDEXX’s] continued growth [in the POC market].”

**IDEXX Strengths**
“I think offering the veterinarian financial incentives becomes a strength for IDEXX—being able to do that; and I think [IDEXX has] a good quality product offering.”

Miscellaneous
- “I think [IDEXX’s avenue for growth will be] expanding on linking their software to their diagnostics and offering continued product innovation.”

6. Sales manager at a veterinary supplier in the Midwest

It’s too early to tell whether IDEXX’s market share will sink or stay the same. The company’s new product additions and expanded sales efforts could definitely help support its market share, but other competitors could also steal market share away now that the market is more diluted. Prices should drop as a result of the FTC ruling.

Market Share and Pricing
- “IDEXX’s new product additions and expanded sales effort could help support its market share, but if the market now opens up, that could also probably dilute its market share. Any time people have more options, it gets more competitive and prices go down.”

Competition
- “Any of IDEXX’s direct competitors stand to gain some market share due to the FTC ruling.”

3) COMPETITORS

All three competitors expect IDEXX to experience a decline in market share in the 2% to 10% range over the next two years. The expansion of the IDEXX sales force, reduction of sales territories and introduction of new products is viewed positively by these sources and is expected to help deter any additional market share losses. Abaxis, Zoetis and Heska are expected to gain some market share. Two sources expect overall growth in the POC testing and diagnostic market segment.

KEY SILO FINDINGS

Market Share
- 3 competitors expect IDEXX to lose share in the 2% to 10% range over the next two years
- IDEXX’s new product and expanded sales force is expected to help them protect market share

Pricing
- 2 of 3 competitors do not expect the FTC ruling or increased competition to lead to lower prices
- 1 source expects prices declines as the end of the IDEXX “monopoly” leads to increased competition
- 1 source said prices are already low for POC diagnostic testing, so little change is expected

Competition
- Abaxis, Zoetis and Heska were noted as competitors that will gain share

IDEXX Strengths
- 2 sources called the expansion of the IDEXX sales force and reduction in territory size as a strength
- Strong R&D and continuing education programs

IDEXX Weaknesses
- IDEXX’s bundled equipment offering is viewed as a weakness

FTC Ruling Impact
- 1 source does not think the FTC ruling has had as big an impact as was originally expected. He does expect younger veterinarians to be more open to new solutions
- 1 source thinks the ruling is good for business and there is enough opportunity for everyone
- 1 source thinks the ruling is only one factor impacting customers buying habits

Miscellaneous
- 2 sources expect growth in the large animal diagnostic and testing market
Abaxis and Zoetis will both increase their POC market shares as the result of the FTC ruling, but distribution will have a net “zero gain,” as this executive described it. Within six to 12 months, IDEXX will lose greater than 10% of its POC market share. The company may regain some but not much of that with an increased sales force, the source said.

Market Share
- “Obviously, Abaxis is going to gain market share [as the result of the FTC ruling]. I’m going to say [Zoetis will gain market share] just because they are now the owners of Synbiotics [which manufactures point-of-care veterinary diagnostics]. Everybody else is going to be distribution—the MWI and the Butlers of the world. They will gain a little bit, but I think it’s just going to be a shift to the market where a Butler [Schein] may lose some, MWI is going to pick that up. It’s going to be a zero gain on the distribution side because that business is going to be so spread out.”
- [Regarding IDEXX announcing an expanded sales force/efforts and new product additions:] “The only way a manufacturer can keep sales going at the level they are is to have their own people out there selling them. To rely solely on distribution to push your product has never been a great way to keep market share.”
- “It’s been a proven fact that if you are willing to spend it [on increasing the sales force], it will come back to you.”
- “IDEXX will probably gain sales by having their own sales force out there.”
- “If [IDEXX] has new products and they are trying to launch a new product, the best way to [do that] is having your own people talk about it. Distribution is never going to be up to speed—they have to know 3,000 products. They are going to know a little bit about everything, where if you have just a handful of products and that’s all you sell, you are going to know everything about that product and if you go in there with that kind of knowledge, you are going to succeed.”
- “I think [IDEXX] will lose in the six to 12 month range more than 10% of its POC market share. They may be able to offset some of it [with more sales people] but when you look at who they are now going against, which is Zoetis, I don’t think they are going to gain that much back—they are going to lose it by default.”

Pricing
- “I think in the end [the FTC ruling] is really not going to affect pricing that much. … I don’t think you will see a big drop in pricing—I think we are pretty much at the bottom [of pricing] for diagnostic point-of-care testing anyway.”

FTC Ruling’s Impact
- “I think it’s good for the business overall. I think there is enough business for every product for everybody. Nobody needs to have to dominate a particular market share on a product when there is so much business out there.”

Miscellaneous
- When [IDEXX’s] Cornerstone first came out, and that’s going back probably six or seven years, clinics thought you can only use this program. And then as time went on they were like, ‘Wait a minute, Cornerstone works with everything.’ And now everyone knows that but in the beginning a lot of clinics didn’t know that—they thought they were tied in and that was the only thing that they could use.”
- “For anybody in point-of-care, I think the largest market for growth is the large animal and feed animal market—cattle, swine, that kind of thing. That’s where the growth is because there are so many diseases on that side that we don’t have tests for that. I think that’s where growth is going to come from—the food animal and production animal.”

Obviously, Abaxis is going to gain market share [as the result of the FTC ruling]. I’m going to say [Zoetis will gain market share] just because they are now the owners of Synbiotics [which manufactures point-of-care veterinary diagnostics]. Everybody else is going to be distribution—the MWI and the Butlers of the world. They will gain a little bit, but I think it’s just going to be a shift to the market where a Butler [Schein] may lose some, MWI is going to pick that up. It’s going to be a zero gain on the distribution side because that business is going to be so spread out.

Long-time Industry Executive &
Former IDEXX Competitor
2. Manager for a European maker of veterinary diagnostic tools and an IDEXX competitor

IDEXX should see a 5% to 10% dip in market share following the Federal Trade Commission ruling, but the company’s new product additions and expanded sales effort should provide benefits and help it maintain market share in the long term. The FTC ruling also opens the door to competitors and as a result, veterinarians should see lower prices. However, if veterinarians change their purchasing habits, there are other factors for those changes besides the FTC’s decision.

Market Share
- “I think the effect of the FTC ruling will affect no more than 5% to 10% of IDEXX’s market share.”
- “IDEXX’s new product additions and expanded sales effort will surely help the company to maintain its market share in the longer term. Any change for IDEXX, if properly evaluated, should provide benefits.”

Pricing
- “The reduction of the monopoly increases the chances for the direct competitors and as a result lowers prices.”

Competition
- “Certain companies that produce equipment of the same kind as IDEXX will be impacted by the FTC ruling. IDEXX will lose about 5% of market share in the short to medium term.”

FTC Ruling’s Impact
- “I do not think that the decision of the Federal Trade Commission represents the only reason for the change in veterinarians’ purchasing habits.”

3. Account executive for a reference laboratory; repeat source

This repeat source says the impact of the FTC decision on IDEXX has been less than she expected and thinks the company’s sales reorganization is a great move that minimizes the company’s weakness of being too large. Now she expects a loss of several percentage points in market share over a couple year’s time, as both Heska and Abaxis gain slight shares.

Market Share
- “There’s more competition in the marketplace so they’ll lose some to a relatively new player, Abaxis. But not much ... maybe within the first couple years a few percentage points....”

Pricing
- “Price changes? No.”

Competition
- “[Heska] has been positioning themselves with Cuattro, their digital product. I think it will be an area of growth for them.”

IDEXX Strengths
- “They’ve talked about changing their whole sales strategy. From what I’ve heard the territory is shrinking for sales reps, and they’re adding a lot of reps, so they’ll each only have 100 to 150 accounts, and they’ll be able to spend more time with clients and can about all the products. IDEXX used to have a sales rep for analyzers, for reference lab and each area. Now one rep can talk about all.”
- “I totally think that will help them. Every company wants that for themselves—a smaller number of accounts. I think it’s a really great strategy although it remains to be seen how it works. We’ve seen with the structure they had before that they had a high turnover rate. You couldn’t develop relationships. This new sales strategy will address that big feeling. If that was the reputation with the reps [in the past], it becomes minimized because now you’ll be dealing with only one sales rep.”
- “They have a lot of expertise, resources and they’re a publicly traded company and have the ability to have R&D to constantly add to their repertoire. Those are definitely their strengths. I think they have a good continuing education they offer clients. They’re just a good resource.”
IDEXX Laboratories

IDEXX Weakness
- “Their weakness is being too big.”
- “I think clients don’t care for the bundling of equipment together. They like to have more options, and don’t like to have all from one company. In conversations with our clients who have left our service and signed another contract, they feel sorry they did. People will say they have one more year and wish they hadn’t dove in that much.”

FTC Ruling’s Impact
- “I don’t think the impact has been that great. I don’t know if MWI has really pushed Heska and Abaxis as much as people thought they would. In my own area I haven’t heard of any huge success because of that relationship. So things are kind of the same as before. We know MWI has relationships with two analyzer companies and it just hasn’t changed that much. Perhaps its a matter of time. It takes time to ramp up. That’s probably part of it.”
- “I see the younger generation [of vets] is more open and willing [to consider new products]. Predominantly with the younger associates they want to go digital and paperless and have all the advantages of the technology in their private life translate into their professional life. They are more open.”

Miscellaneous
- “Diagnostics are still predicting some growth unlike other areas of vet medicine ... I’m not sure why—maybe clients’ pet owners are more willing to pay for diagnostic equipment. In the Bayer study, there was a prediction of growth in diagnostics.”

4) INDUSTRY SPECIALISTS
Five of seven industry specialists expect IDEXX to lose 5% to 15% of its POC diagnostic test market share over the next 12 months. Six of seven sources discussed IDEXX’s introduction of new products and expansion of sales staff. Two sources have not observed either initiative but think it is a positive, and four sources say it will help IDEXX protect its market share. Competitors expected to gain share include Abaxis, Heska and VCA, which also could gain additional lab work. Pricing if impacted by the increased competition will be minimal. IDEXX is considered an industry with numerous strengths including a diverse, high-quality product, line-industry-leading integrated software solutions, solid R&D, and strong exclusive national distributor relationships.

KEY SILO FINDINGS
Market Share
- 5 of 7 sources expect IDEXX to lose 5% to 15% of its POC diagnostic market share over the next 12 months. 1 source expects no change in market share and 1 does not know
- 1 source expects them to gain that share back through R&D innovation
- The expansion of the sales force is positive and will help minimize market share loses

Pricing
- 4 sources commented on pricing with 2 expecting slight declines over a 12-month period as equipment cycles mature, and 2 sources are not experiencing or expecting price declines

Competition
- 4 of 7 sources expect Abaxis to experience an increase in market share. Heska was mentioned by one source as a possible winner and VCA could see additional work for its labs
- 2 sources expect vets to be open to considering different companies to meet their testing needs
- 1 source expects competitors to use a negative sell technique against IDEXX citing the monopoly/unfair competition ruling from the FTC

IDEXX Strengths
- Diverse, high-quality product lines, able to offer a vet practice everything in an attractive package. High-quality, fully integrated software solution for all aspects of the vet practice. Exclusive test not available from other companies, exclusive relationships with two national distributors, good marketing and solid R&D

IDEXX Weaknesses
- The large size of the company, a non-responsive sales force, the full integration sales approach and high prices were discussed as potential IDEXX weaknesses
- 1 source said he is sure IDEXX has weaknesses, but he was pleased with everything they offered
FTC Ruling Impact
- 4 of 5 sources who commented think the FTC ruling is a positive for the industry and pet owners. Over time it is expected to open up the market. 1 source called the ruling a “game changer”
- 1 source feels the FTC ruling is a non-issue

Miscellaneous
- MWI is experiencing phenomenal growth
- IDEXX sales force will be focusing on improving equipment utilization with the vet clinics
- Development of vet franchises is expected to have a positive impact on IDEXX

1. Independent veterinary sales consultant

IDEXX’s market share may drop 5% in a year, but it will be back up to 70% in a few years. The FTC ruling will not make a big difference to any of the competitors. IDEXX’s biggest competitor is itself, particularly in the in-house versus reference lab market. IDEXX’s diversity is both its strength and its weakness, and if the company developed a cohesive sales force, they would be very strong. Pricing will remain the same, and vets will be the winners following the ruling; when they see all the options, they can make better decisions.

Market Share
- “IDEXX will stay at 70% or drop slightly to 65%, but no further. In a few years, they will be back up to 70%. The ruling won’t make a huge difference. Clinics use what they want to use.”
- “IDEXX will lose 0% in three months and possibly 5% in six to 12 months. It takes longer than that to make decisions. Major moves are not made very quickly.”
- “IDEXX in trouble? Absolutely not.”
- “In the end, market share will be the same for the competitors as it was before the ruling. It will even out to what it was before.”

Pricing
- “Prices might lower initially, but not substantially. All prices are about the same right now anyway.”

Competition
- “IDEXX’s biggest competitor is itself. They have sales reps who sell in-house lab testing and other sales reps who sell reference lab testing. The two sometimes overlap and work against each other.”
- “Following the ruling, you may see short-term growth at first for Abaxis. But you won’t see Abaxis have tremendous growth that it didn’t have before.”
- “Abaxis has its own distributors who key in on businesses.”
- “VCA hospitals won’t be affected at all.”
- “Competition is good for the vets and the industry.”

IDEXX Strengths
- “Its strength is diversity. They have a great product line, and the vets like that. IDEXX is so diversified now—it offers in-house lab equipment, digital X-ray, everything.”
- “They are so big, they can offer offices deals that look very attractive. They put everything together to make a nice package, with a package price. You look like you are getting lab equipment for free. No one else is in the same position to do that.”
- “IDEXX will be available everywhere. It will be easy to acquire with MWI.”

IDEXX Weakness
- “Its weakness is diversity. IDEXX is just so big, they work against each other rather than together.”
- “The sales reps need to learn to work together and sell test equipment more efficiently. They need to sell in-house test equipment and point out to the vets specialty testing that is better in a reference lab. If they work together, they can do tremendous things; they would be a killer company. Instead the reps just ignore each other.”
- “The Cornerstone software has some bugs. It was one of the first programs to come out, and since then, competitors have come out with products that do a better job. IDEXX needs an update, but the problem is that the software links to all other things. You couldn’t sell the features to anyone who didn’t have Cornerstone.”

FTC Ruling’s Impact
"I’m surprised this took so long. IDEXX controlled the market, especially with the SNAP tests. Every vet has to have them, and it worked very well for a long time."

"Doctors will be open to purchasing new products."

"Distributors are in the vet offices every two weeks. If you only sell IDEXX, you don’t talk about its problems, and you don’t mention other products. You don’t even know about other products; you only sell IDEXX. But now you will know what is new and different and can talk about those products."

"Vets will be the winners. They can make better decisions if they can see all the products."

**Miscellaneous**

- "I have heard of new IDEXX products, but I haven’t seen them."
- "IDEXX may be hiring new sales reps, but I haven’t seen that, either. They can hire more, but it will only work if the divisions learn to work with each other. The finger needs to talk to the other finger. It will all depend on what they hire."
- "This is a distributor-run business. More vets rely on the reps because they know few manufacturers."
- "MWI is a big company, and their growth rate is phenomenal."
- "I don’t know of any new products. The digital X-ray market is growing."

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## 2. Veterinarian Practice Consultant; repeat source

IDEXX will tap its R&D to compensate for POC market share losses, the source predicted. IDEXX’s software system is probably “one of the strongest” in the veterinarian market.

**Market Share**

- [Regarding whether the FTC ruling and increased competition will threaten IDEXX’s POC market share:] “I do think yes.”
- “I do think that if [IDEXX] puts more sales people on the ground and they have the ability to visit the clinics more often and sort of keep working with the practice owners in bringing value-added things in more often than they have in the past, that it will help them maintain their market share.”
- “I do think [IDEXX] will still lose market share because I just think that the distributor reps are still in there very often and the distributor reps still have more of a relationship with their practice owners than most manufacturers’ reps do just because of the frequency of their visits—and the fact that clinics tend to call them three and four, five times a week rather than the manufacturers’ reps whom they call on rarely. So the [clinics] still have those ... relationships with distribution and if distribution is seeing more profitability in other products and/or the ability to offer more products, I think [IDEXX] will still lose market share ... but [IDEXX] has moved in the right direction if they are putting more sales people on the ground.”
- “I think [IDEXX] will lose about 10% [of the POC market share in six months] because I think their competitors are going to see [the new sales force] and they are going to make a concerted effort also.”
- “[Over the next year], I would say [IDEXX will lose up to] 15%. I have not heard about [the increased IDEXX sales staffing].”

**Competition**

- “I think that Abaxis probably will gain some market share through their lab analyzers. VCA is already strong so they probably will gain a little bit but not much; they don’t do the in-house stuff but of course that doesn’t mean they won’t change that. So VCA may make a move into creating in-house lab analyzers, which they don’t have now. But I would say that Abaxis has the greatest potential.”
- “I don’t know that anybody will lose in this, I really don’t, except for IDEXX.”
- “I’m sure that [IDEXX can make up for this loss] because they have ... a palpable, well-financed machine. So the research and development will be the place that they will make up for this.”

**IDEXX Strengths**
“The strength of IDEXX is the fact that it integrates with so many of the point-of-care technologies; you have your main software system, which is Cornerstone, and then it’s integrating with your digital X-ray system and all your lab systems and even your manual SNAP tests, so that everything can be digitally put into your patient record.”

“IDEXX probably has one of the strongest software systems available to veterinarians ... As far as the medical recordkeeping [goes], a lot of [the software products] are very good and a lot of them do the same thing. But as far as marketing and management reports and detailed charts and graphs—[IDEXX] is very, very deep in that, and I think that is certainly one of their strong suits. I used their software system [as a practice manager for animal hospitals] and was very impressed with the depth of the reports that I could get out of it. So I’m the one who used the reports.”

“Many of the other competitors do not have the software system, but they do have the ability to integrate with the software system. Many of the lab analyzers do integrate very seamlessly with that software. And IDEXX’s lab analyzers also integrate with other companies’ software systems. The integration came along quite a while ago because everybody saw the need to if you are going to sell this stuff, you are going to have to make sure it integrates with other people’s software systems because they are not going to change the software system. The No. 2 most traumatizing thing that happens in a veterinary hospital is to change your software system. So it’s something you don’t want to do.”

FTC Ruling’s Impact

“I think [the FTC ruling] is a good thing. I think that [IDEXX] did have a monopoly on it. ... I do think there was an unfairness there, so I’m glad that it happened. You’ve got the three big players on the market: Butler Schein, MWI, and Webster, which is now Patterson [Cos. Inc./PDCO]; they changed their name in January. Those are the three largest distributors in the country, and IDEXX was saying to them, ‘You can’t sell anybody else’s product if you sell ours.’ And that truly causes issues because you’ve got a lot of little ‘mom and pop’ kind of distributors; those little distributors are being taken over by the three biggies. ... [T]he big fish are eating the little fish, so pretty soon there are no little fish to offer other people’s products, and then IDEXX does have a monopoly.”

3. Industry Consultant; repeat source

IDEXX’s experience and clinical and training resources are its strengths, including pet owner education, which the company is stressing much more, according to this industry consultant. IDEXX will concentrate more on helping veterinarian practices improve utilization of its point-of-care diagnostics, he said.

Market Share

“I don’t know [if the FTC ruling will threaten IDEXX’s market share].”

“What [the competitors] will probably do is try to negative sell against ... the [IDEXX] monopoly and the perceived disadvantages of that.”

Competition

[Regarding what vets will be open to in terms of product/services from other producers:] “I think it all has to do with efficacy, efficiency—whatever gets the job done reliably and consistently [and] that’s good medicine and good business. I think that’s first and foremost, and then support from an educational and implementation standpoint.”

“By the same token, if IDEXX is the one that’s offering those, then [vets] are going to do business with IDEXX.”

IDEXX Strengths

“Their strength is they have the resources and they have been doing it long enough that I think they can bring that value to the vet, and I do think they are putting a whole lot more emphasis on the tools to help educate the consumer, the pet owner. [By value, I mean] they have lots of resources, clinical resources, they have practice growth, implementation training type of resources; their services cover veterinarian education all the way to pet owner consumer education.”

IDEXX Weaknesses

“If they are viewed as a monopoly based on the FTC stuff, then that doesn’t serve them very well, and so they have to overcome those issues. And of course their competition is going to sell heavily against that. But once again, at the end of the day, it has to do with the efficacy and efficiency of what they offer.”

Miscellaneous

[Regarding IDEXX’s announcement about new product additions and an expanded sales force/effort:] “I have not noticed these.”
“I think what they are going to do is effect greater utilization—rather than just placing the unit, I think they (IDEXX) are going to do a better job of helping the veterinarian get full utility out of that piece of equipment. They aren’t just going to focus on selling the razors [so to speak]—they are going to help the veterinarian have more throughput with their diagnostic. In other words, how many pets receive their diagnostic services.”

“It’s one thing to place the equipment, it’s another thing to help the veterinarian get more utilization out of it, and I think that’s what they are going to change their focus to—it’s greater utilization of those diagnostics.”

4. University professor and veterinary pathologist; repeat source

IDEXX holds the dominant position in the market and its new sales efforts and products should help the company maintain market share. Still, competitors are vying for a piece of that pie. His lab and university are open to new providers, but they buy most things from IDEXX and any major change in purchasing is unlikely. They look for quality and price, and he has not noticed any changes in pricing following the FTC ruling. He says IDEXX has good quality products and name recognition with laboratories, and he has no complaints about the company’s products. Going forward, IDEXX could look for ways to integrate new technologies to diagnose things like respiratory diseases in livestock.

Market Share

“New products and an expanded sales effort should help IDEXX maintain market share. It is a big company.”

“If IDEXX has a 70% market share, it is a dominant position, but there are other companies trying to get a piece of that all the time. Their market share depends on how much IDEXX will invest in staying where they are at.”

Pricing

“When purchasing, it is a combination of price and quality. Quality is the most important thing, and it has to be cost-effective for us. We are a good diagnostic lab for all of the vets in our state.”

“I have not noticed any differences in the prices of POC diagnostic equipment.”

“People like familiarity. Only a drastic change in pricing or drastic event will make you shop around and see what others are doing. Most of the time, when you are buying a bundle of products from a certain customer, there is an account representative you have a good rapport with.”

Competition

“We are always open to new providers, but for things that serve a niche. Most things we buy from IDEXX.”

IDEXX Strengths

“We buy a lot of ELISA kits from IDEXX. They are the only company that has a licensed product for that.”

“IDEXX has really good name recognition with diagnostic labs. Everybody knows who they are and just about everybody buys some products from them.”

“IDEXX has quality products. Some products are unique in the marketplace, and there are not many companies competing with them for these products.”

IDEXX Weaknesses

“I am sure IDEXX has some weaknesses, but I do not have a problem with anything.”

Miscellaneous

“A lot of the diagnostic referral labs see a lot of cases of respiratory disease, et cetera, in the livestock species. There are definitely ways for IDEXX to integrate new technologies. There are a lot of diagnostic demands and we are always looking for fast, cost-effective ways to diagnose.”

5. Executive director of a university animal health diagnostic center; repeat source

The FTC ruling will likely cause a 5% to 10% drop in market share for IDEXX over the next year. Longer term, the company should be able to maintain market share with expanded products and sales efforts. How IDEXX fares in this market will largely depend on how they respond to this ruling in terms of business decisions. He believes veterinarians will be open to new products and services, from companies like Heska and Abaxis. IDEXX has good marketing and good R&D but does not like to play with others in the marketplace.
The FTC investigation and ultimate resolution is absolutely a game changer and, over time, the vet will benefit a great deal and the pet owner will benefit a great deal, as well as the industry as a whole.

Industry Expert

The FTC ruling will almost certainly have some negative impact, diminution of market share, on IDEXX as potential customers will have a wider array of choices. I would guess this will not be a huge impact immediately, in part due to the integration of the IDEXX offerings. Over time, the degree of loss will depend both on the strength of the competition and the response of IDEXX to this competition.

It is hard to predict how much market share IDEXX could lose in the next three, six, or 12 months. I would not expect a huge loss and not quickly, but over the next 12 months there may well be some loss—5% to 10% or more, as natural turnover of equipment in the new environment leads to more choice.

New product additions and an expanded sales effort is undoubtedly a good response on the part of IDEXX and should help them maintain market share [longer term]. Both product and territory realignment and expanded sales strategies for IDEXX seem sound to me.

I believe veterinarians will be open to new products and services from other providers, as it is my experience that veterinarians and their practice managers will shop around, not only for price but for what they perceive as the best value and quality.

Heska and Abaxis are potential winners following the FTC ruling.

Strengths: good marketing, good research and development.

Weaknesses: As demonstrated by this recent FTC ruling, IDEXX does not like to play with others in the marketplace.

It will not be difficult for current IDEXX customers to secure new testing equipment and services. However, the point about the effect of IDEXX’s integrated offerings is a good one. I would expect that will help them retain clients, at least in the short term.

By: Executive Director
University Animal Health Diagnostic Center

Labeling the FTC ruling a “game changer,” the expert predicted it could allow Abaxis and MWI each to capture more of the POC testing market. IDEXX’s agreements with its distributors are the company’s main forte, the source reported. Eventually POC test prices will become fair.

In the first three months [IDEXX will have] a 2% to 5% decrease; at 6 months, another 2% to 5% and, at a year, another 2% to 5% in the POC market.

Abaxis and MWI [stand to gain market share].

MWI now has set itself apart in that they have the ability to offer their customer a choice, whereas the other IDEXX distributors don’t have as much credibility because they only carry one brand. If you walk into a store with one brand, obviously the salespeople are going to recommend that one brand. MWI on the other hand has a higher credibility in that they carry multiple brands and can better serve their customers in what products they recommend, knowing that they carry multiple brands.

Butler/Schein and Patterson could be [negatively] impacted.

“I think there has been not too much from [our company’s] side, but I think that there has been some slight pricing changes [on IDEXX’s] side. But I envision as time goes on, we will see more, and the vets will pay a fair price for their [POC testing] product, and over time I think pet owners will pay a
fair price for their [vet] services.”

**Competition**
- “Yes [veterinarians will be open to new products and services from other producers], because now, for example [our company]—even though we are still not on equal footing with IDEXX, we have more visibility and vets will be more open to looking at the options we have. So absolutely we have a lot more visibility than we did before because there are 200 sales people at MWI carrying the product, and while they may not be all talking about it every day, many of them are. And we have [our product] on their website and in their newsletter and fliers. [Whether this is true for the other competition too], I don’t know.”
- “IDEXX integration is done primarily through software called Cornerstone. IDEXX owns Cornerstone. [Having the one software company] impacts IDEXX business because IDEXX pushes [the one software]. We [as a company] are neutral in that we partner with as many as 15 companies that compete with IDEXX software. The [approximately] 15 software companies do more or the less same thing as IDEXX.”

**IDEXX Strengths**
- “[IDEXX’s] primary strength remains that they have exclusive arrangements with two national distributors, exclusive arrangements with two very large regional distributors, and a distribution agreement with MWI, which is also a very large national distributor.”

**FTC Ruling’s Impact**
- “The FTC investigation and ultimate resolution is absolutely a game changer and, over time, the vet will benefit a great deal and the pet owner will benefit a great deal, as well as the industry as a whole.”

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7. Veterinary Franchise Consultant with decades of experience opening many practices; repeat source

This repeat source does not view IDEXX’s sales force realignment as significant and continues to view IDEXX as a strong, responsive company. He foresees Abaxis possibly gaining slight share but overall little impact on IDEXX from the FTC settlement. He’s unaware of pricing changes.

**Market Share**
- “[IDEXX’s sales force changes] aren’t big. Everybody is out there doing that.”
- “No change from what I said before [possibly a couple percentage points, no major loss.]”

**Pricing**
- Source was unaware of any pricing changes.

**Competition**
- “If I was going to pick a winner [for who gains share], I would bet on Abaxis. I can’t stand Heska. Abaxis has always been above board and they’re a reputable organization.”

**IDEXX Strengths**
- “You get timely results and you have an immediate consultation. I don’t think once on a weekend that it took awhile to get a call back. They’re very responsive to doctor consultations. It does get pricey when you’re writing a check for several thousand dollars. I feel they’re a good solid company. You can be secure in their reports and not second-guess the pathology report.”

**IDEXX Weakness**
- “[Customers] have to pay to play. [Bills can be high.]”
- “I can see [IDEXX’s integrated products] can be a detriment for some who don’t want to get the full gamut. They have to be careful about overselling. That was what Heska did.”

**FTC Ruling’s Impact**
- “I really haven’t heard anything of significance. I think it’s a non-issue and don’t think it’s a big deal.”
- “I think [vets] are always looking for new products and services. I come from the old school where saving two cents is a big deal. But now, these young, female idealistic veterinarians are looking at the service and what IDEXX has to offer. Service is very important.”

**Miscellaneous**
- “The cost for new veterinarians to get into practice is cost-prohibitive. There are some new attempts to develop the vet franchises that can have a positive effect for IDEXX.”
Secondary Sources

The following three secondary sources address the changing POC pet diagnostic market—Heska’s sale of assets to Elanco Animal Health, Zoetis’ separation from Pfizer and addition of new board members, and Zoetis’ expansion of its Nebraska facility.

▸ June 25 KC Animal Health Forum article
  Heska has sold bovine and feline vaccine assets to Elanco Animal Health to focus more on its core segments.
  ▪ “Elanco Animal Health, a division of Eli Lilly, has acquired certain bovine and feline vaccine assets from Heska, a Colorado-based supplier of veterinary diagnostic and other pharmaceutical and biological animal health products.”
  ▪ “Heska said it had divested specific non-core assets that are useful for the production of bovine and feline vaccines to Elanco.”
  ▪ “Heska had a limited direct involvement in the market segments covered under this agreement. The sale of these assets will strengthen our balance sheet and allow us to invest in areas more closely aligned with our strategic focus, as well as offering potential future opportunities for our Other Vaccines, Pharmaceuticals and Products business segment.”

▸ July 1 Bovine Veterinarian article
  Zoetis Inc. has completed its separation from Pfizer and will be added to the S&P 500 after the close of trading on June 21. Zoetis has undergone many board changes to complete its independence from Pfizer. Two new editions are Sanjay Khosla and Robert Scully, who will aid international expansion and financial and management requirements.
  ▪ “Zoetis Inc., the former animal health business of Pfizer Inc., opened a new chapter in the company’s history last week, marking its separation from Pfizer and emergence as a fully independent company.”
  ▪ “Zoetis has also become one of the newest members of the S&P 500®. S&P Dow Jones Indices announced its intent to add Zoetis to the S&P 500 GICS (Global Industry Classification Standard) Pharmaceuticals Sub-Industry index after the close of trading on June 21.”
  ▪ “Meanwhile, Zoetis appointed two new independent directors to the Board, effective as of the closing date of the exchange offer: Sanjay Khosla and Robert Scully. The Board will continue to evaluate additional board candidates to identify individuals with appropriate backgrounds and experience to guide the company’s strategic direction and contribute to the company’s success.”

▸ July 8 NJ Biz article
  Zoetis is planning a three-story expansion to its Nebraska facility, which makes medicine for veterinarians and livestock. It is expected to start this summer and end in 2014.
  ▪ “Zoetis Inc., the Florham-Park based animal health business that recently spun off from Pfizer Inc., is expanding its Nebraska operations.”
  ▪ “Plans call for a 19,000-square-foot, three-story expansion of an existing production facility in Lincoln to accommodate the transfer of products from a third-party manufacturer. Zoetis’ Nebraska plant makes medicines used by veterinarians and livestock producers to treat animals.”
  ▪ “The company expects to formally break ground this summer and complete construction in 2014. Early stages of planning and construction are underway.”
  ▪ “Zoetis said the expansion in Nebraska could create an additional 30 positions during peak production time. The Lincoln site, part of the company’s global manufacturing network, employs 500.”

Additional research by Cheryl Meyer, Linda Richards, Renee Euchner and Karen Lusky
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