

Pet Project

How a British couple turned the shock of a \$5,000 vet bill into a \$53-million-a-year business.

BY KARSTEN STRAUSS

Every pet owner has a horror story about shelling out for a sick animal. In 2001 British expats Chris and Natasha Ashton had barely settled into student life in the M.B.A. program at the Wharton School when their cat Bodey came down with a mysterious case of anorexia—and rang up a \$5,000 vet bill. But instead of getting mad, they got entrepreneurial, hatching a plan to sell pet insurance. Last year the husband-and-wife team sold \$53 million worth of Petplan policies for cats and dogs.

It's a business with lots of room to grow. Americans spend more than \$14 billion on vet bills annually, but pet insurance premiums total at most a half-billion. The largest player, Veterinary Pet Insurance, had sales of \$239 million in 2013.

The marketing challenge for the Ashtons and competitors is signing up customers from a population that either hasn't heard of pet insurance or views it, justifiably, with some suspicion.

While pet insurance has been around in some form since 1890, when Claes Virgin, the founder of Länssförsäkrings (now Agria Animal Insurance) wrote the first policies in Sweden, it didn't come to the U.S. until 1982, and then it got a bad rep. Some U.S. insurers dropped sick pets or excluded certain chronic or hereditary conditions.

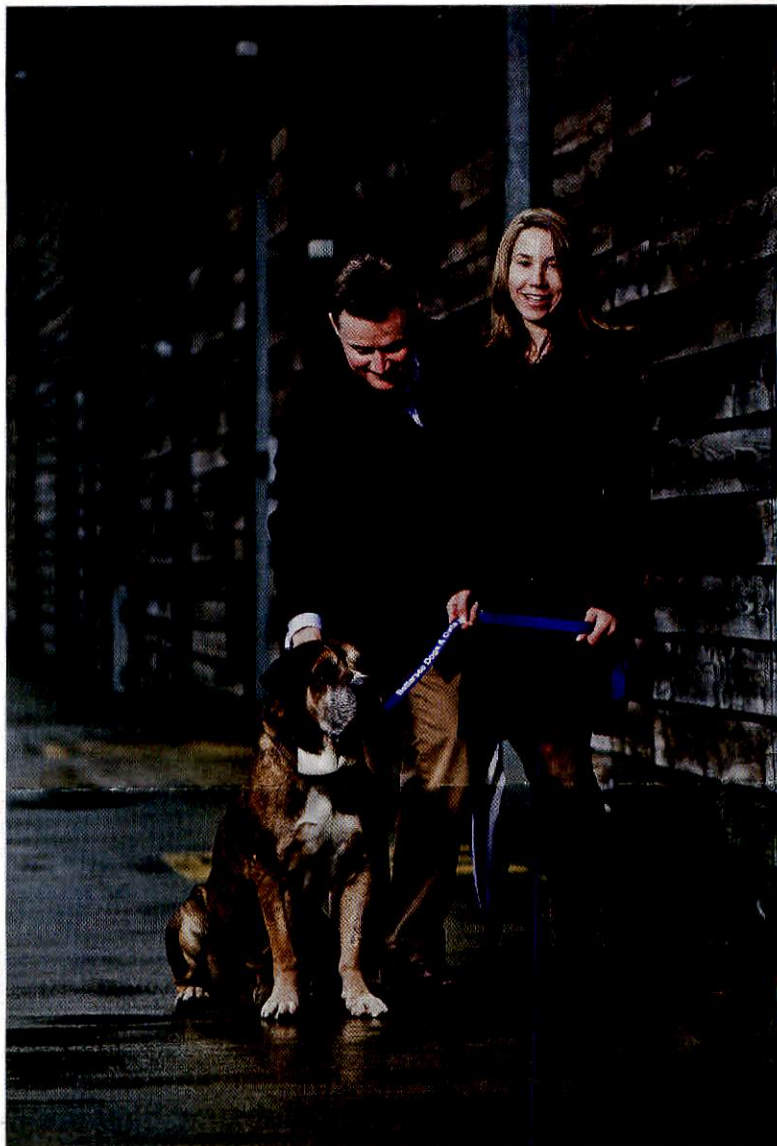
Over the past decade, however, a wave of new competitors, including Petplan, Em-

brace, Trupanion and Healthy Paws, has eliminated such exclusions and offered consumers more choice, forcing older players to shape up, says Tennessee vet Doug Kenney, author of *Your Guide to Understanding Pet Health Insurance*.

Even now, however, insurance generally makes sense only for cash-flow-challenged owners who fear they won't have the money to cover their best friend's vet bill. (In 2011 *Consumer Reports* described pet insurance as "rarely worth the price.")

With Petplan you pick an overall level of annual coverage (from \$10,000 for a "bronze" plan to \$22,000 for "gold"), a deductible (from \$50 to \$200) and the share

Chris and Natasha Ashton built Petplan through alliances—and making nice to potential clients.



MOST COMMON DOG DISEASES

HIP DYSPLASIA

COST TO TREAT:

\$5,000 to \$7,500 (operation), \$500 to 1,000 annually (medication)

VULNERABLE BREEDS:

German shepherd (19%), beagle (18%), bulldog (71%)



ACL TEAR

COST TO TREAT:

\$2,000 to \$5,000

VULNERABLE BREEDS:

Labrador retriever (21%)



CANCER

COST TO TREAT:

\$2,000 to \$10,000

VULNERABLE BREEDS:

Golden retriever (50%), boxer (37%)



ELBOW DYSPLASIA

COST TO TREAT:

\$1,730 (surgery), \$5,000 annually (medication)

VULNERABLE BREEDS:

Rottweiler (39%), German shepherd (19%)



INTERVERTEBRAL DISC DISEASE

COST TO TREAT:

\$5,000 to \$7,500

VULNERABLE BREEDS:

Dachshund (25%)



PERCENT LIKELY TO SUFFER. SOURCES: ANIMAL MEDICAL CENTER (NEW YORK CITY); ORTHOPEDIC FOUNDATION FOR ANIMALS; PETMD; CANADIAN VETERINARY JOURNAL.

of costs you want picked up (80% to 100%). Routine visits and prior conditions aren't covered. Once you've bought the insurance, however, you won't get dropped if your animal develops an ailment. Premiums increase up to 15% a year as your pet ages but not because you've made a claim. For a 2-year-old Labrador retriever living in Johnsbury, Ill., a bronze plan with a \$200 deductible and 80% reimbursement runs \$26 a month.

Some of Petplan's numbers would make human insurers drool. Only a third of policyholders file a claim in any given year, and just 60% of the company's revenues go to pay medical expenses, compared with the 80% to 85% that ObamaCare requires insurers to devote to medical claims. The Ashtons won't say, but we estimate Petplan's gross margins are north of 10%.

With claims capped and predictable, the key to profit is signing up more pets and keeping their owners loyal. Petplan says an impressive 90% of policyholders re-up each year.

Since launching in 2006, the Ashtons have sold 120,000 policies by forming alliances with animal agencies and shelters, among others, and working old-boy and new social networks alike. "Partnerships have been instrumental, giving us access to a much broader range of people than we'd have been able to target," says Natasha, 39.

Like many entrepreneurs, the Ashtons came to their business by chance but have left little to chance since. They met at Oxford

while Chris was still in the Royal Marines, and they decided to attend Wharton together after his discharge. When cat Bodey got sick, they spotted their opening—in their native U.K. 30% of pets have some sort of insurance coverage. The U.S.? Roughly 2%.

The couple first worked on a pilot, Fetch Inc., at Wharton's business incubator. "We were completely on our own and had to build everything from scratch," recalls Chris, 40. So in 2003 they took a smart shortcut, approaching Petplan U.K., a 35-year-old animal insurer owned by the German financial giant Allianz, and buying the franchise rights to develop a new North American division. They pay "a small but fair" percentage of sales to the home office, Chris says, and in exchange have gotten decades of actuarial numbers on dogs and cats and the many ailments they fall prey to.

Financing the venture took partners, too. After maxing out \$100,000 on credit cards and tapping friends and family for \$200,000, the Ashtons, through some British chums, found a backer in Godfried van Lanschot, whose namesake bank in the Netherlands has been around since 1737. He's invested an amount the Ashtons won't disclose but is one of Petplan's four board members. (In all they've raised a total of \$5.5 million but retain majority control.)

In July 2006 Petplan wrote its first policy, that October it started selling online at gopetplan.com, and by December the Ashtons had struck their first marketing alli-

ance—with the U.S. Humane Society. Petplan offers society members a discount and donates \$30 to the group for every new policy signed through its supporter pool. That has brought about 5,000 customers—and curb cred. The Ashtons later reached out to animal shelters around the country, offering a free month of insurance to anyone adopting a new animal (another few thousand policies).

The Ashtons have tapped the Wharton network, too, approaching alum Vernon Hill, who built Commerce Bank of Cherry Hill, N.J. from nothing to a 470-branch financial powerhouse, which he sold to TD Financial Group for \$8.5 billion in 2007. Hill has invested in Petplan and helped add the service to the list of elective benefits for bank employees. He now chairs its board.

Last year, thanks in part to the help of an Oxford acquaintance, Petplan convinced Marsh & McLennan Cos.' Mercer unit, the giant benefits consultant, to offer Petplan

policies to the thousands of employers it advises.

The pound. The workplace. Where else to reach pet owners? Since 2011 the Ashtons have persuaded BlueCross plans in eight states to offer their product. "Pets are part of the family, so people naturally think about pet health care when they're thinking about their own," reasons Chris.

As for social networks, the Ashtons swear by their links to Pinterest, where snapshots of kittens and puppies draw lots of eyeballs. Most of the \$5 million they'll spend on marketing and advertising this year will go to paid search on Google.

That means that consumers should have no problem finding a policy for their pet. Whether they should pay for one is an entirely different matter. Some owners will save thousands on unexpected vet bills, but many others will simply kiss their premiums goodbye. Caveat emptor. **F**

EVERY DOG HAS HIS SPA DAY



It's not only vet bills that can run into the thousands. Some owners routinely pamper their pets in exotic, even outrageous, ways.

PHYSICAL THERAPY. Water4Dogs, a New York City animal physical rehabilitation facility, focuses on bringing canines back from injury through a series of services not unfamiliar to elite human athletes. For \$165 an hour pets enjoy underwater treadmills, low-level laser and neuromuscular electrical stimulation, acupuncture, herbal and nutritional therapy, and deep-tissue ultrasonic healing.

YOGA. Florida-based yoga instructor Suzi Teitelman has developed a way of including pets in her exercises, called "Doga." Teitelman offers deluxe Doga Yogi training kits for \$535 and will visit a client's home for a private session for \$100.

PARTIES. For about \$700 New York Dog Spa on Manhattan's Upper East Side will organize a Saturday-night red-carpet champagne party for up to 20 guests and their canines. A deejay may be hired for a few hundred more.

FURNITURE. A custom doggy mansion from Bitch New York runs \$10,000, and a paisley bedroom set carries a \$12,000 price tag. The kitty furniture shop A Hidden Hollow charges \$2,000 for its 10-foot-tall cat tree, which features four lounging platforms and a fabric exterior. It charges an extra \$35 for the installation of an "enchanted fairy door."

DEATH. The Old Pine Box in Edgewood, N.M. builds simple but classy wooden caskets for deceased pets, charging \$500 for a large, black walnut coffin (\$30 extra will get you a pillow). The Hartsdale Pet Cemetery & Crematory in upstate New York—one of the oldest facilities of its kind in the U.S.—will bury a full-size dog for \$2,000, excluding annual fees for plot upkeep. For those on the thrifty side the company will cremate an expired pet for \$341 (urn not included).