

Veterinarian investigates illicit diversion of flea products

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For The VIN News Service

Editor's note: This is the first in a three-part series detailing the experience of one practitioner in the shadowy world of veterinary product diversion. Reads parts [II](#) and [III](#).

In the short period that Dr. Peggy Guy ordered more than \$130,000 of the popular flea and tick killer Frontline Plus, she stepped way beyond her normal role as a veterinarian. She became a double agent.

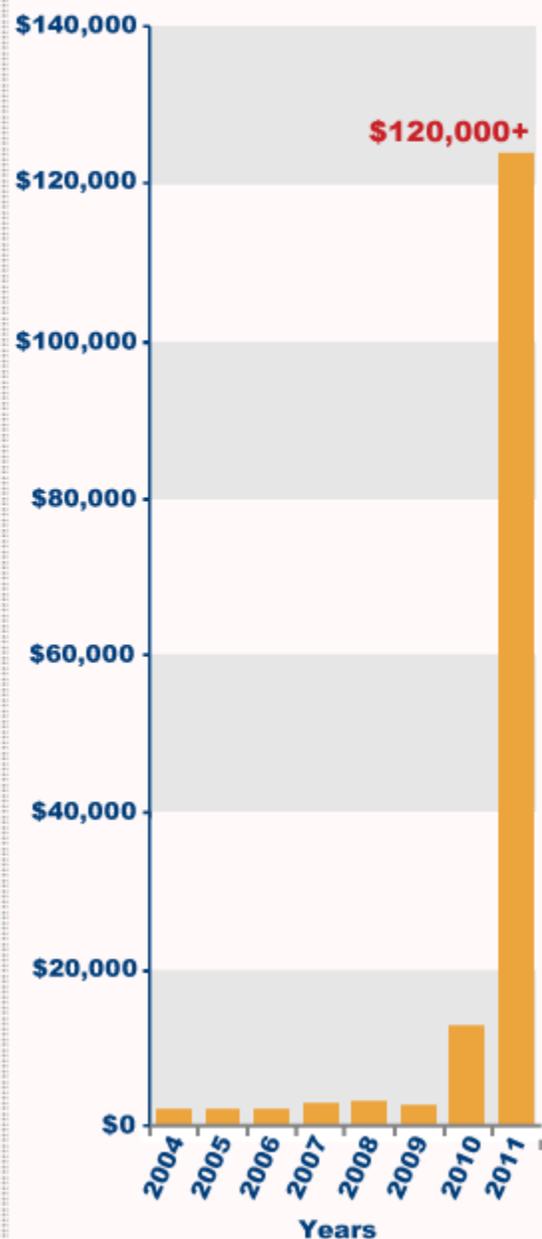
Acting on behalf of the Veterinary Information Network (VIN), a professional membership organization of veterinarians, Guy spent 13 months exploring the gray market where dog and cat parasiticides are purchased and sold repeatedly on their way to consumers' hands. Her participation in secretive sales channels entailed chicanery, the movement of sizable sums of money and a waggish tracking scheme employing golden tickets.

Until the sting, Guy was a bit player in the flea and tick market. She lives in an arid region where fleas are scarce. In nearly 20 years of practice, she's spent very little money on flea treatments. But in late 2010, a company in Florida with the unforgettable name WTF Wholesale Supply Corp. asked Guy to purchase on its behalf mass orders of Frontline Plus, which it would, in turn, sell to retail outlets.

WTF solicited Guy and veterinarians like her because Merial, the company that makes the Frontline brand, has a policy of selling product only to licensed practitioners who directly treat pets. Merial and most other

Buying spree unchecked

A veterinarian sharply increased purchases from pharmaceutical company Merial starting in late 2010 and resold most of the product to an unauthorized broker. Merial did not question the surge.



Source: VIN News Service research
Graphic by Tamara Rees

veterinary pharmaceutical companies say they do not sell veterinary therapeutics to retail merchants.

Yet Frontline and similar types of “spot-on” flea treatments for dogs and cats are available from the largest general retailers in the country, including Wal-Mart, Costco, Target, Amazon.com and Kroger, as well as from pet stores, feed stores and online pharmacies. How they obtain their supplies is an industry secret but at least part of the answer is that they buy from brokers like WTF that buy from veterinarians.

Most of those veterinarians sell to pet-products brokers for one simple reason: to make money. The brokers request tens of thousands of dollars of product at a time and pay commissions based on order size.

WTF’s proposition attracted Guy, but not because of the money. Guy saw an opportunity to collect information on how flea-product brokers operate, what retailers they supply and whether Merial would figure out that she was circumventing its sales policy and take steps to stop her. The profits she earned from the sales she would donate to charity.

With support from Dr. Paul Pion, president and co-founder of VIN, and VIN attorney Raphael Moore, and in consultation with the VIN News Service, Guy decided to take up WTF’s offer to join its “purchasing program.”

Guy was careful to make sure that everything she did was legal, but she worried that her actions were risky, all the same. That’s because the veterinary profession disapproves of veterinarians reselling pet therapeutics, an activity known as gray-market [diversion](#).

If she publicly acknowledged diverting Frontline, Guy thought she might be criticized as harshly as other [veterinarians who have owned up](#) to what the profession considers [unethical behavior](#).

“I know for a fact that people do not read carefully and they will see WTF, diversion and (my name) in the same sentence and I will be branded forever,” she said.

To avoid the chance of being ostracized by the veterinary community, she asked to use a pseudonym for this article. Peggy Guy is not her real name.

Lifting the veil

In agreeing to resell pet flea and tick treatments, Guy entered a clandestine realm of contradictions and deception. Here, in a nutshell, is what she learned in 13 months of diverting Frontline Plus:

- Merial did not question her dramatic uptick in purchases. Company officials have stated repeatedly that they monitor clinic buying patterns in order to identify and discourage diversion but Merial did not investigate the basis for Guy’s orders, even though her purchases in one year exceeded by a factor of six that of her purchases the entire seven years before.

- WTF misstated the product's destination. An information sheet describing the business said the company mainly supplied stores in central Florida. A representative assured Guy that WTF sold primarily to farm and feed stores. But by tracking some product, Guy and VIN determined that Frontline Plus brokered by WTF landed all over the country, including at pharmacies owned by Kroger, one of the nation's largest grocery chains.
- Diversion is made more attractive by Merial's generous payment terms. Guy's final net was about \$6,500, making for an average commission of 5 percent. But more worthwhile than the profit, Guy found, was the flow of cash generated by the transactions.

Here's why: Once she received a shipment from Merial, Guy would send a copy of the packing slip to WTF, which paid her before she forwarded the shipment to them. Her payments from WTF ranged between \$10,000 and \$40,000. Guy had the use of that cash for months before her debt to Merial was due. Merial routinely gives extended payment terms to clinics that order in bulk. Whereas Guy got 30 days to pay when she was a small customer, she was given 180 days as a big customer.

"It's an interest-free loan for six months," Guy said. "If you're short a month ... and you've got \$30,000 sitting there, you've got time to make money to pay off a Merial bill. And once you're in, you're sucked in: 'OK, we don't quite have enough this month, let's make another purchase.' 'We don't have them paid off yet, guess we'd better make another purchase.' "

It can become, in short, something of an addiction.

The VIN News Service has been for years researching how diversion works and who participates. Key aspects that remained elusive were how product brokers coax veterinarians to participate; what manufacturers such as Merial do to detect and curb the activity; and the path products travel from clinics to retail outlets.

After reading articles on the subject, Guy was aware of the lingering questions. One day late in 2010, her clinic received a fax from WTF offering a "lucrative opportunity." Veterinarians periodically receive such solicitations from pet-products brokers, but this was the first time Guy remembered getting one. Her immediate reaction was to discard the offer.

Then she recognized a chance to find answers to questions her colleagues have long wondered.

Guy picked up the telephone and called the toll-free number. An effusive representative emailed Guy a "welcome packet" that included a statement signed by general manager Nancy Ben-Hamo describing WTF as a "sales and distribution firm providing retail outlets hard-to-find veterinary products."



Click [here](#) for larger view

It reads in part: “Our customer base of thousands consist primarily of retail pet stores, groomers and farm and feed stores in the Central Florida area. ... Our veterinary network spans the country and includes hundreds of professionals of all types: active, relief, mobile and retired.”

The letter alluded to the surreptitious nature of pet-product diversion this way: “A major factor of consideration for our veterinary partners is confidentiality. We understand our partners’ concern about privacy, and we are committed to protecting their privacy in each and every way possible.”

Guy was struck by WTF’s hush-hush culture. “They were so into the cloak-and-dagger routine,” she said, “wanting to call me on my cell phone (and) have Merial ship product to my home so my staff would not know what was going on.” But Guy didn’t choose to keep her business secret from her staff, nor was she obliged to. None of the paperwork WTF provided required the veterinarian to keep the transactions confidential.

Guy was willing, as well, to be caught by Merial. Part of her purpose was to see whether Merial would notice a spike in purchases. She asked a WTF solicitor on the phone what would happen if the company flagged her as a diverter. The agent replied to the effect of:

“Merial knows this is going on. They turn a blind eye to it, as long as no one is getting greedy. In other words, do not place huge orders.”

What would be a huge order? The representative told Guy that some veterinarians place single orders in the range of \$40,000 to \$80,000. Orders of greater than \$100,000, she said, would attract unwanted attention.

As Guy's contact at WTF predicted, Merial didn't seem to notice — at least not at the outset. Guy placed five orders over the course of 13 months. She started with a \$10,000 order, proceeded to \$20,000, then \$30,000, then nearly \$40,000, then back to \$30,000.

After the fourth order, someone at Merial called the clinic wanting to let Guy know about a "cash back" promotion underway. In other words, rather than questioning what prompted the clinic to order so much Frontline Plus in a short period, the company wanted to sell her more. The more she bought, it seemed, the easier Merial made it for her to buy — and divert — still more.

A Merial salesman followed up a few weeks later.

"He noticed that we had made quite a few purchases this last year and he wanted to be sure that we noticed the most recent promo," Guy recounted. "He was very specific: He wanted me to place the order with him only ... so that he gets credit for the order."

Guy's experience is similar to that related by other veterinarians who have diverted Frontline Plus. The veterinarians, interviewed last fall by the VIN News Service, [described](#) how Merial employees implicitly and explicitly encouraged the activity, presumably to reap the sales commissions.

Merial: Veterinarians given benefit of the doubt

Merial officials acknowledged at the time that the company might have some rogue sales representatives who cooperate with diverters in order to boost their own commissions, but fervently denied that the company as a whole approves of or knowingly facilitates diversion.

Regarding Guy's experience, Donald Schwartz, Merial's executive director for business services and business development, said the company should have noticed her purchase spike. "The system should have picked this up," he said. "It should have been picked up by the fact that at a certain month, she exceeded a certain purchase level. ... The system is not perfect in the way we work things."

Schwartz noted that because Guy did not have an assigned sales representative and placed orders through Merial's "customer care center," the change in her purchasing pattern was less likely to set off alarms.

"(In) Customer Care, where the representatives tend not to have specific customer knowledge, it's more of an arm's-length, anonymous kind of relationship, but still, it probably should have been flagged," he conceded.

In any case, the fact that a solo practitioner in an arid climate with a history of minimal purchases of flea and tick treatment suddenly places large orders for parasiticides is not, by itself, immediate cause for suspicion, Schwartz said.

"No one is guilty at a \$10,000 order," he said. "Nor do you want us to say, 'Where are you (located)? How many vets in your clinic? How many dogs, how many cats, how many cows?' She may be buying for a buying group. Even in a place that's dry and

doesn't have much of a flea problem, there still can be reasons to buy that are not nefarious, including the fact that there may be ticks."

Schwartz said sometimes clinics decide to switch from a competitor's brand of parasiticide to Frontline Plus. That would plausibly explain a surge in orders, he said.

"We don't look into vets' business, and I don't think they want us looking into their business and assuming they're guilty before selling them anything," he said. "... Do veterinarians really want us policing them *a priori*?"

For most of the period that she placed large orders of Frontline Plus, Schwartz said, Guy could be plausibly recognized as nothing more than a good customer. "As a good customer, she gets special offers and treatment," he said.

Addressing Guy's observation that free financing provided by Merial makes diverting all the more financially rewarding, Schwartz said, "A lot of veterinarians run businesses on very tight margins. We don't (give generous payment terms) in order to facilitate diversion. We do that to facilitate the health and growth of veterinarians' businesses."

Eliminating extended payment terms would take away from legitimate clients, he added, and do nothing to stop diversion. "It would happen regardless," Schwartz said.

Distressed by condemnations

In the middle of Guy's sales to WTF, the company coincidentally landed in the news.

A number of veterinarians hadn't been paid by WTF and sued the company. Those veterinarians, unlike Guy, had shipped product to WTF before receiving payment. A lawyer for WTF [admitted](#) the company had not paid some suppliers, owing to financial problems. She cited the poor economy and shifts in the market for flea and tick products.

Hoping for power in numbers, the unpaid veterinarians posted their plight on a variety of websites, hoping to connect with others in the same situation to coordinate their legal cases. One of the websites where a posting appeared was VIN.

Almost immediately, the veterinarian who authored the post, Dr. Lisa Costello, drew scathing criticism for her role in making Frontline Plus available on the open market. Some equated it to stealing from colleagues and said she deserved her misfortune.

Costello gamely tried to [explain](#) what motivated her to divert: She needed the money to make up for income lost while she was out for medical treatment; and after seeing a huge display of Frontline in a PetSmart store, she believed that trying to keep Frontline exclusively in veterinary clinics was futile.

A few colleagues responded with sympathy and called her courageous for speaking up but many were unmoved.

Comments ran along the lines of: "I understand that you needed money but so do I, and what you did hurt me and every other vet out there."

Watching from the sidelines, Guy was horrified.

"I was very sad to see the pure acrimony and hate leveled at the diverter ... " she said. "I was surprised to see that many people treat her so poorly and with no respect."

Guy also began to worry about how her own role in diversion would be received. "I am starting to wonder if I am going to be eviscerated when this article comes out," she said. She decided she would have to keep her name out of the story.

WTF morphs into True Lines

On Aug. 19, a Friday, WTF went out of business.

The previous week, WTF had paid Guy for a new order of Frontline Plus. The day WTF closed its doors, she had 132 cartons of flea and tick killer housed inside 11 cardboard boxes stacked conspicuously in her clinic.

On Monday, Aug. 22, Guy told the VIN News Service:

"Got a call just now from a Kay Carpenter who called to say that they are no longer WTF Wholesale. They have a new phone number and email and everything."

Their new name: [True Lines Distributing Co.](#) As explained to Guy, the only things to have changed were the name and contact information. Employees Guy had worked with under the auspices of WTF were still there, working for True Lines. Although the mailing address had changed, Guy was told the shipping address was the same, and she should continue with the transaction as planned.

Guy wasn't so sure about that. On the advice of a lawyer, Guy told Carpenter a few days later that she was concerned about sending to True Lines product requested by WTF, since True Lines did not pay for the product.

The line went silent. After a long pause, Guy asked Carpenter if she was still there.

"She finally said, 'Oh, no problem, we are the same company,' "Guy recounted. "... she said that True Line is the same company with a new name and a new owner.

"I told her I was still very concerned about sending WTF product to a company that had not paid me. She asked if I had old shipping labels. I said I had a couple. She asked me to please use them as the stuff was all going to the same place. I asked her how that could be? The addresses on the labels are different.

"I asked her twice to put this in writing, that I cannot be in trouble for sending the WTF product to True Lines, and she ignored me. Did not answer, other than to reiterate that I would not be in trouble."

The VIN News Service sought comment from Carpenter, Ben-Hamo and Kelly Parsons Kwiatek, an attorney for WTF. A man identifying himself only as True Lines responded to a voice message left for Carpenter. He was angry. "Stop calling us," he fumed.

“Please stop calling and harassing our customers, asking about WTF. We are not WTF Wholesale.” He said True Lines did not wish to take part in the article.

Parsons Kwiatek and Ben-Hamo did not answer messages left by telephone and email.

After WTF closed and True Lines took over Guy’s transaction, Guy asked Carpenter for a new resale certificate that would enable her to resell the product to True Lines without having to collect sales tax. Sorting out the paperwork and the shipping question took months. Guy held onto some of the product until the issues were resolved, much to True Lines’ chagrin.

Guy didn’t mind causing the people at True Lines to fret a bit, considering what veterinarians who hadn’t been paid by WTF were enduring. “I thought it was poetic justice that True Lines really had to sweat to get (this) shipment, considering the stories I heard of how unethically and illegally they had treated many veterinarians,” she said.

Guy herself always insisted on and received payment upfront, but her commissions dropped steadily over time — from 10 percent at the outset to 2 percent by the end. In fact, when she placed a fifth order, True Lines offered the 2 percent, then tried to renege, saying that Guy would be compensated by a promotional rebate Merial was offering at the time.

“No way,” Guy replied. She threatened to cancel the order. The broker backed off and restored the commission.

“They have never done a bait-and-switch before,” Guy mused afterward. “They are starting to show their true colors.”

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