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Good afternoon. My name is Bruce Phillips, and I am an Economist representing PIJAC today. Previously, I was the Research Director of the U.S. Small Business Administration for over 15 years. During that time, I oversaw an annual report for the Office of the President entitled "Small Business in the American Economy." The President sent this report to every member of Congress after it was reviewed by the Council of Economic Advisors. In addition, while at the US SBA, I supervised an annual research budget advertised to both academic and small research firms. I was a Senior Fellow at the National Federation of Independent Business -the nation's largest small business trade association from 2000-2010. While there, I wrote two editions of the book "Small Business Problems and Priorities" in which 20,000 of our members ranked the top 50 problems encountered in running their businesses at federal, state and local levels (2004, 2008 editions).

This task force's primary goal—an attempt to address the inhumane treatment of animals by bad out of state breeders—is admirable and worthwhile, but unlikely to be accomplished by a blanket ban on purebred sales by small retailers in CT. A ban would do nothing to lessen consumer demand for purebred pets, and if that preference cannot be met in local retail stores, consumers will seek other sources via travel to retailers in neighboring states or purchase over the internet. In either case, Connecticut pet stores will lose revenue and state and local governments will lose tax receipts. To add insult to injury, when consumer preferences are met in this way, supply restrictions generally result in higher prices to consumers (supply shifts) and greater profits to the non-Connecticut sellers who meet the demand.

At your previous public hearing, you heard from proponents of a scheme that would require pet stores to source all animals they sell from shelters, rescues and other nonprofits, or small local breeders. They argue that it would be easy and profitable for retailers who currently sell live dogs and cats from out of state to shift to this business model. Unfortunately, the realities of small business economics argue forcefully against this, especially if such a shift is artificially imposed upon retailers by legislative mandate.

First, let's examine the suggestion that such a change would be easy. Change to one's fundamental business model is almost never easy, especially when externally initiated. In the case of a small business like these local retailers, it can be catastrophic. Store owners can't simply "flip a switch" and change their entire approach to doing business. Before anything else, a new business plan and retail strategy will need to be developed and implemented – skip this and failure is almost guaranteed. This takes time, certainly, but it also requires capital outlays for market research, legal counsel, accounting and structural modifications. Retailers will need to terminate existing relationships with suppliers and cultivate new ones with permitted

sources of pets. Marketing campaigns will need to be developed to educate consumers as to the new way of doing business. And all of this will play out against a backdrop of uncertainty as the guiding legislation is interpreted, enforced, challenged and adjudicated.

Then there is the assertion that such a change would be profitable. Purebred pets make up roughly 20 -40 percent of the \$700,000 average revenue based on a PIJAC survey of Connecticut pet stores that sell purebred animals. Recognizing that shelter- and rescue-sourced pets cannot be sold at similar price points to breeder-sourced dogs and cats, stores would need to significantly increase their volume of sales just to maintain their existing revenue figures. Should revenue decrease, as is far more likely, many of them will go out of business.

There appear to be significant additional challenges inherent in such a model. Are retailers to be required to establish exclusive relationships with specific shelters and rescues, or will they be encouraged to compete with one another? The former would further limit the supply of available pets, while the latter would drive up the cost to sellers, further eroding their profit margin. Would shelters and rescues be compelled to make *all* animals available to retailers for resale, or would they be permitted to hold back the most attractive dogs and cats they receive? That would, after all, be a more efficient allocation of resources as those animals are the ones most likely to be easily re-homed by the nonprofits themselves. Should retailers be permitted to source from out of state shelters and rescues under any circumstances? This may be necessary for the viability of the stores, but it would seem to defeat the purpose of reducing the in-state shelter and rescue population.

And what implications would this model have for Connecticut's warranty laws? Currently, Connecticut is one of 21 states that offers protections to consumers who purchase ill or injured dogs from pet shops (http://www.bornfreeusa.org/b4a1_petshoplaws_currentstate.php, accessed 12/1/13). Would these same protections apply to dogs and cats sourced from shelters and rescues if sold in a pet shop? If not, how does this better serve pet owners and their pets? If so, will this proposal inadvertently impose costly new regulations on these nonprofits to help ensure pet health? And what additional costs, inspections and regulations will this mean for Connecticut's hobby breeders, none of whom are large enough to require their registration with (or inspection by) the USDA? Rapidly rising liability insurance costs are the number two problem of small business owners nationwide according to the NFIB (Bruce D. Phillips and Holly Wade, "Small Business Problems and Priorities," Washington, D.C. 2008). It would appear that local retailers and in-state breeders alike could find themselves increasingly subject to such costs under this arrangement.

Before Connecticut imposes this model on its existing retailers, it may be beneficial to look at a few of the existing stores that have attempted it. It should be noted that there are only a handful of such stores nationwide, which makes it difficult to predict outcomes with any

real confidence. However, there is sufficient anecdotal evidence of economic difficulties to give pause. Since 2007, Andy's Pet Shop of San Jose, California, has adopted a 100% rescue-sourced model for all animals - all animals come from shelters or rescue groups. Unfortunately, according to their website, "donations have fallen well short of Adoption Center expenses. The owners, Eric and Lissa, can no longer afford the Adoption Center costs and can't pay the rent." (www.andyspetshop.com, accessed 12/1/13) They are currently exploring a transition to a non-profit corporate status for the Adoption Center and may even transfer their existing pet supplies business to the 501c3 as well. More recently, Lucky Puppy Rescue and Retail opened in December of 2012 in the wake of Los Angeles' decision to impose a ban on retail pet sales. Less than a year later, they have issued an urgent fundraising appeal to raise \$40,000 for outstanding veterinary costs and they may be forced to close if they cannot pay. (<http://studiocity.patch.com/groups/business-news/p/lucky-puppy-in-studio-city-needs-fundraising-to-stay-open>, accessed 12/1/13)

Small pet retailers in CT cannot compete with large "big box" stores using this economic model, either. Why not? The more you can produce and sell, the lower the production cost per unit. This is called "economies of scale" and has been identified to be as effective in selling items as in enforcing regulations. (Annual Report of the Chief Counsel for Advocacy on Implementation of the Small Business Regulatory Enforcement and Fairness Act, 1996-2013, (GPO, Washington, D.C.) No small operation can sell pet food and/or imported pet toys cheaper than the large chains. The big national players sell it cheaper because they buy massive quantities at low prices (think COSTCO). And lawsuits on the basis of price are very difficult to win.

So how do smaller, local retailers compete? They rely upon the strength of their relationships with their customers, most often established with a significant initial experience like the purchase of a family pet. Going the extra mile, offering service and knowledge that is superior to their corporate competition, they earn repeat business. Are consumers satisfied? Survey after survey (NFIB, National Small Business Polls, Washington, DC, 1980-1996) show that most people like small enterprises and their role within the community. They sponsor the Little League teams, contribute to charity, are family friendly employers and are innovative and provide personal service.

The small firm share of retail trade continues to decline in most industries. (www.sba.gov/advo/2013) Most Mom and Pop shops simply do not have enough business in this struggling economy. While the pet industry as a whole is doing well, with sales up about 4-5 percent according to Pet Business, almost all of that growth has been in big box stores. Change the business model of the small pet shop owner, and you put the proverbial nail in the coffin.

Thank you for your time.