

From Patient to Guest: Current trends in the German health care industry and their impacts on the tourism sector

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Abstract

Fuelled by demographic and psychographic change, the German health care system has been under increasing pressure over the past decades to a point where the system has been seen as no longer economically viable. This has set in motion a string of reform measures which have aimed to reign in the spiralling costs. Now, with a much greater focus on prevention, competition within the health care system and more personal responsibility, the German health sector is by many no longer perceived as a burden on the national economy but rather as an opportunity for future economic growth. One important reason for this development has been an expansion in what is known as the second health care market. This paper outlines the shift from a public health insurance system to a modern health economy by focusing on the health tourism sector which has experienced a boom in recent years, driven particularly by strong demand in the senior market segment.

Introduction

Since the 1990s Germany's health care system, particularly its care structures and financing, have been in a process of fundamental change. Carried by a wave of reform measures aimed at reigning in spiralling costs, a paradigm shift from a 'cost factor' health insurance system to a 'growth sector' health economy, which is built on the creation and marketing of goods and services which are conducive to the preservation and restoration of health, can be noted (Klinkmann, 2005). The implementation of economic and market-based elements has brought about modernisation and rationalisation in the way medical care is organised, the liberalisation of many health services as well as the privatisation of certain treatment costs. This shift towards greater personal responsibility was argued to not only cut costs in the country's public health insurance system, but ultimately also to lead to greater commitment towards health and wellbeing across all sectors of society. As Gerlinger (2010, p. 119) points out, "[t]he justification for this privatisation mechanism was that it would increase citizens' own sense of responsibility for their health, because greater participation in the costs would give them more incentive to lead a healthier life". Known as psychographic change, a greater health awareness amongst all age groups has indeed been noted over the past two decades, but has registered particularly strongly in those aged 65 years or older (Sylt Marketing GmbH, 2009).

In this paper we will first highlight the challenges of demographic change as an important driver for reforms in the German health care system, since the country's aging population has contributed significantly to escalating health care costs over the past decades. The ensuing reform agenda, which ultimately transformed Germany's traditional public health insurance system into a competitive health economy, is reflected in the increase in privately financed health expenditure. In the context of this so-called 'second (privately funded) health care market' we will then examine the role health tourism plays as a growing dynamic sector of Germany's health economy.

Demographic Change in Germany

On a global scale the world's population is predicted to continue to grow steadily reaching almost 9 billion people by 2050 (UN, 2004). This development is, however, not mirrored in all countries but is mainly concentrated on developing nations. Population numbers in highly developed countries, in contrast, are expected to fall. Since 2003 the German population, for instance, has been in continuous decline (Petermann, Revermann, & Scherz, 2006) and it is

forecast that its population of 82 Mio (2008) will decrease to between 65 and 70 Mio by 2060 (Statistisches Bundesamt, 2009a) (Fig. 1).

But this decline is cushioned by a steady increase in life expectancy, which has been evident for a number of decades and is predicted to continue well into the future. In 2008, for instance, 5% of the country's population were in the 80+ age bracket, but this segment is projected to increase to 14% over the next 50 years. By that time the

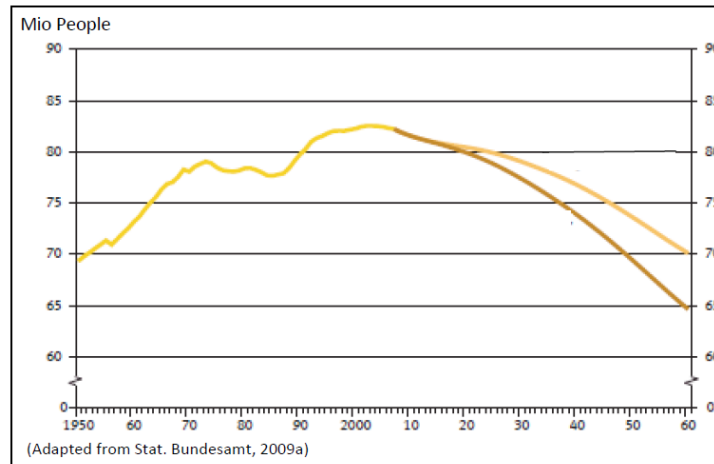


FIG.1: GERMAN POPULATION 1950-2060

number of people 65 years or older will have almost doubled from 20% (2008) to 34%. How significant these developments are is aptly illustrated in an analysis of Germany's old-age dependency ratio, which expresses the number of people in the 65+ age bracket for every 100 persons aged 20 to 64 (i.e. working age). It is predicted that this figure will increase from 32 in 2005 and 34 in 2008 to between 63 and 67 in 2060 (Statistisches Bundesamt, 2009a). Coupled with a steady decline in the country's birth rate, this trend obviously will markedly change the shape of Germany's age pyramid in the years ahead (Fig. 2).

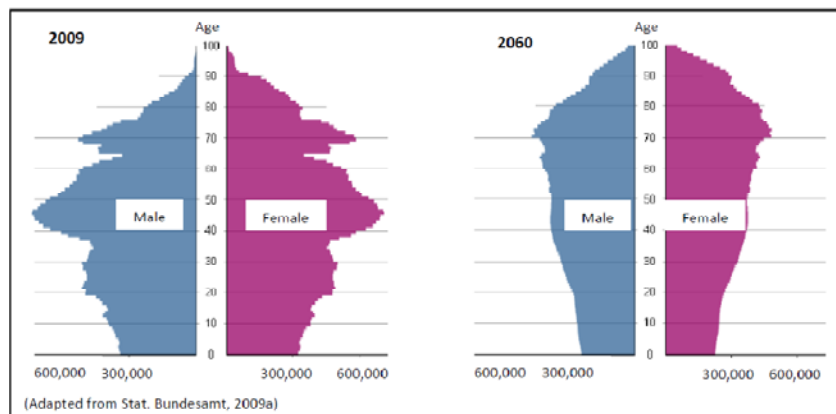


FIG.2: CHANGES IN GERMANY'S AGE PYRAMID

These demographic developments impact on all aspects of Germany's society and economy but resonate particularly strong in the country's social insurance system. It comprises schemes for health, retirement, accidents and unemployment which have been key constituents of the German welfare state since the late 19th century. A characteristic feature of the public health insurance system, which covered in 2006 88% of the population and

approximately 57% of all health related expenditure (Robert Koch-Institut, 2009), is its financing in the main by (until recently equal) employer and employee contributions based on taxable income which tend to be around 15% of the employee's gross salary. Obviously a decrease in Germany's working population poses a significant threat to the financial viability of the country's traditional approach to health care.

But not only from a labour market perspective does the ageing German society challenge this system. Almost half of health expenditure in Germany is linked to the 65+ age bracket (Statistisches Bundesamt, 2008), thus to only about 20% of the population (Statistisches Bundesamt, 2009a). Fig. 3 illustrates the significantly higher *per capita* health expenditure for the older segments of the German population (Statistisches Bundesamt, 2008).

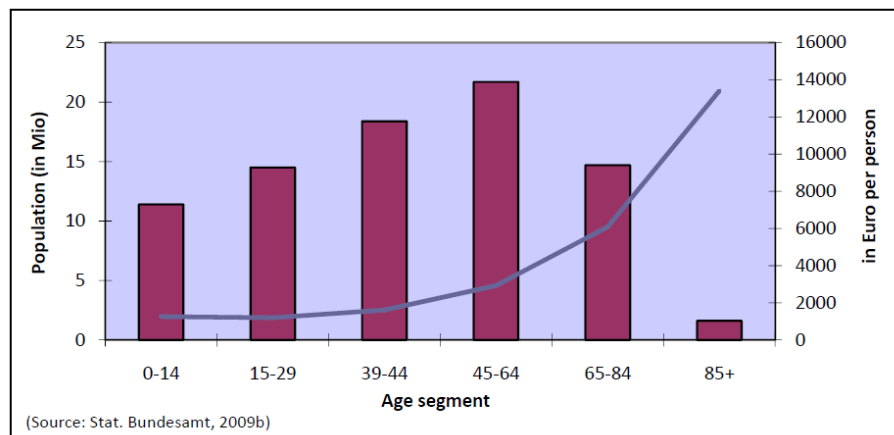


FIG.3: HEALTH RELATED EXPENDITURE (2006)

In combination with advancements in medicinal technology and rising costs for health care services, these demographic developments undermine the traditional German health insurance system. Between 1995 and 2008 health expenditure increased by 31.3% (Robert Koch-Institut, 2009; Statistisches Bundesamt, 2009b) and over the past twenty years between 10 and 11% of Germany's Gross Domestic Product have consistently been spent on health related expenses (Robert Koch-Institut, 2009). It has thus become obvious that Germany's health care system with its traditional funding approach and operations is no longer viable. In an attempt to ensure a fair and sustainable financing of the health care system within the parameters of cost capping and quality assurance a number of reforms were therefore introduced since the late 1980s. Initially, the obvious need for change was addressed by rising premiums but it became soon clear that in the long term this measure was not sufficient to resolve the system inherent problems. More radical change ultimately saw the German health care system departing from being an important column of the German welfare state and develop into a significant and dynamic factor for new economic and social growth (Fretschner et al., 2002).

In past economic and labour market discourse, Germany's health economy was considered mainly a burden on the country and its financing by employer and employee contributions was seen as a significant impediment on the country's international competitiveness. Since the mid-1990s, however, this negative perception has started to change (Fretschner et al., 2002). As a labour intensive sector, the health economy's positive contributions to Germany's employment figures and also its future growth potential are acknowledged in public debate and have helped to highlight the sector's increasing significance in the country's economic development (Fretschner et al., 2002). Today, it constitutes an important plank of Germany's economic activities, taking a share of almost 15% of the country's employment market (Hilbert & Kluska, 2010).

Germany's Second Health Care Market

These developments in Germany's health economy are, however, not only a result of demographic shifts but have also been driven by psychographic change since good health and wellbeing have developed into core values for all sectors of society (Forschungsgemeinschaft Urlaub und Reisen, 2008). Thus, the fundamental reforms in Germany's health care system that have placed much greater emphasis on higher individual co-contributions have gone hand in hand with a stronger preparedness amongst Germany's population to take greater personal responsibility for their own health and wellbeing. Ultimately, these trends have led to a marked expansion in what is known as the 'second health care market' which encompasses privately funded health related products and services such as wellness and fitness offerings, over-the-counter medication, alternative medical treatments, preventative health measures, healthy nutrition, spa treatments, health tourism and cosmetic surgery. With about 64 billion Euros in 2008, for example, this private health-related expenditure provided significant input into the German health economy (Karte & Neumann, 2008). On average Germans spend about 900 Euro annually on additional health related products and services, a figure that is predicted to grow even further in the future (Focus, 2007). It therefore comes as no surprise that until 2020 the second health care market in Germany is projected to grow annually by 6% (Statistisches Bundesamt, 2009b). It is particularly this growing second health care market that has ensured that the German health economy, despite the various reform agendas over the past thirty years or so and their declared objective to cap or even cut costs and decrease health related expenditure, remains a significant growth industry (Kliegel, 2007).

The complexity of Germany's health economy is captured in the multi-layered so-called 'onion model' (Fig.4) developed by the Institute for Work and Technology (Institute for Work and Technology, 2010). This cluster model is not focused on a traditional classification of health related products and services into either preventative, curative or rehabilitation measures. Rather, it adopts a 'value chain' perspective and illustrates how products and services on its periphery, for instances tourism, wellness or sport and leisure activities, benefit from cross-sectoral expansion into the health economy and ultimately lead to much more diverse products and services on offer (Fretschner et al., 2002). Hence, when taking this perspective, the health care industry adopts a more holistic view of health, incorporating products and services outside the traditional core primary health care sector. This reflects an understanding of health as "a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity" (WHO, 2010).

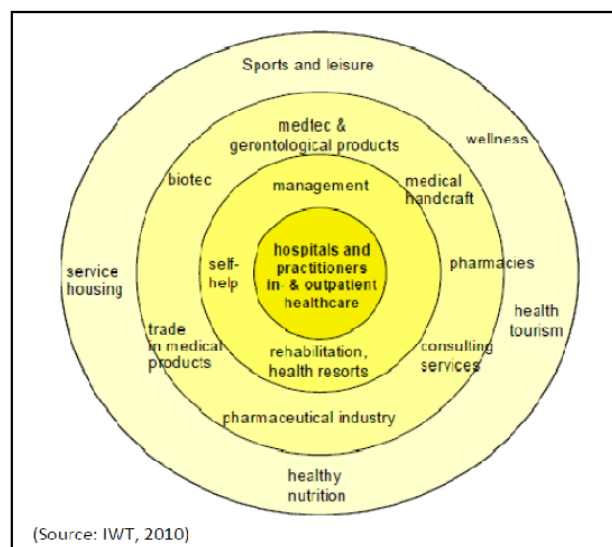


FIG.4: GERMANY'S HEALTH ECONOMY

Health Tourism in Germany

As is the case in any industry sector, increased demand, fuelled by a broader health policy shift in combination with psychographic change, has thus led to a marked expansion in the supply of a great variety of health related goods and services. The continuing growth in health awareness in industrial societies is evident in more emphasis on prevention, but also greater interest in complementary and alternative medicines. The desire for a healthy lifestyle has also created ample opportunities for new health services in a leisure setting as well as new products and services specifically geared towards the tourism market (Hall, 2003). This trend has created new prospects for the health and wellness tourism industry which has developed into an increasingly important constituent of Germany's health economy. In 2009, 'health' was, for instance, an important aspect during their holidays for 36% of the German population, which translated into 4 Mio health related holiday trips in that year. By 2020 this figure is estimated to almost double. A survey has confirmed the increasing importance of 'health' for the travel sector with 19% of the population considering taking a wellness holiday within the next three years and 9% planning holidays with a particular focus on fitness (Forschungsgemeinschaft Urlaub und Reisen, 2010). Referring to a recent study conducted on health tourism in Germany by the Institute for Leisure Economics, Dörpinghaus (2009) highlights that the interest in health tourism has between 2002 and 2007 risen by 31% with a further increase of 82% forecast until 2020.

The blending of health with tourism is, however, not a new phenomenon but can be traced back to the 18th century. In the context of coastal tourism, Wesley and Pforr (2009, p. 17), for instance, highlight that "at first, the seaside attracted visitors for the perceived medicinal properties of sea water and sea air". Lohman (2010) goes even further in stating that health tourism constitutes the roots of modern tourism. Today, the sector's popularity is thus only a recurrent trend but, as Bennett, King, and Milner (2003) predict, the health tourism market is likely to experience continued growth well into the future.

In the light of this rapidly expanding market, which is fuelled by a great range of different needs and expectations, it is obvious that health tourism does not constitute a homogenous market segment, but serves as an umbrella concept integrating different traditions. According to Rulle, Hoffmann, and Kraft (2010) these range from leisure activities that are geared towards mental and physical wellness and indulgence to preventative treatments and medical tourism for the purpose of essential or elective hospital treatments or surgery (Fig. 5). Consequently, the health tourism market is commonly considered a continuum ranging from medical tourism to wellness tourism spanning across spa treatments, spiritual retreats, sport holidays, medical wellness or 'Kur' visits. The latter is a particular nuance of health tourism which is very popular in Germany's more than 300 officially recognised spas and health resorts. The term 'Kur' refers to a specific medical prevention, convalescence and rehabilitation program or treatment for a particular chronic disease by highly qualified health professionals. About one third of all visitor nights in Germany are spent in its spas and health resorts (Deutscher Heilbäderverband, 2009) which highlights the importance of this particular health tourism segment for the country. In 2010 about 1 in 7 Germans planned a Kur treatment during the next three years (Forschungsgemeinschaft Urlaub und Reisen, 2010). At present, also almost half a million international tourists visit Germany 'as the land of spas and thermal baths' for health related holidays. Health tourism will also feature prominently in the German National Tourist Board's 2011 tourism campaign (www.germany-tourism.de), which will put the country's health tourism products and services under the spot light.

Kaspar (1996, in Mueller and Lanz-Kaufmann, 2001: p. 7) highlights the broadness of the concept 'health tourism' with the understanding that it is "the sum of all the relationships and phenomena resulting from a change of location and residence by people in order to promote, stabilise and, as appropriate, restore physical, mental and social wellbeing while using health services and for whom the place where they are staying is neither their principle nor permanent place of residence or work". Adapting this definition, Voigt (2008, in Voigt et al., 2010: p. 8) then considers wellness tourism to be "the sum of all the relationships resulting from a journey by people whose primary motive is to maintain or promote their health and well-being and who stay at least one night at a facility that is

specially designed to enable and enhance people’s physical, psychological, spiritual and / or social well-being”. In contrast to this, medical tourism is “the sum of all the relationships and phenomena resulting from a journey by people whose primary motive is to treat or cure a medical condition by taking advantage of medical intervention services away from their usual place of residence while typically combining this journey with the consumption of tourism products and services” (Voigt et al., 2010: p. 8). The motivation for this type of health tourism is often the outlook of cheaper medical treatments abroad, for instance for cosmetic and dental surgical procedures or for physiotherapy (Bushell& Sheldon, 2009).

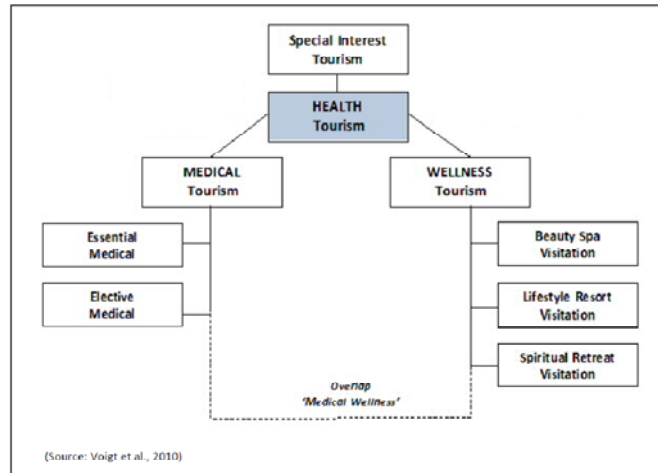


FIG.5: CLASSIFICATION OF HEALTH TOURISM

The Senior Market

What is common to all these nuances of health tourism is that the emphasis on the aspect of ‘health’ grows with the age of the traveller. With this in mind it is no surprise that in 2008, for instance, the 60+ age bracket constituted 35% of the wellness tourism market, a remarkable 75% increase since 1999 (Fig. 6)(Forschungsgemeinschaft Urlaub und Reisen, 2008).

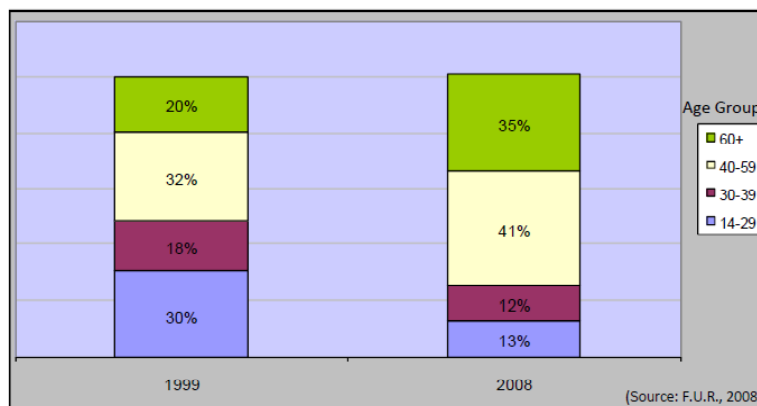


FIG.6: WELLNESS TRAVELLERS BY AGE GROUPS

Today, 75% of Germany's wellness tourists are 40 years or older, 62% of those participating in health tourism activities are in the 60+ age segment, amongst 'Kur' guests they take even 70% of the market share (Lohmann, 2010). Taking into account the earlier discussed demographic change and the significant shifts it creates in Germany's age pyramid, Opaschowski's assessment (2007) that health tourism will develop into a future 'mega market' does not seem to be too far stretched. Already it appears that over the past 30 years or so Germany's seniors have been a main driver of tourism demand. A 29% market share in 2007 illustrates this trend (Forschungsgemeinschaft Urlaub und Reisen, 2008) as does the increase in travel propensity of those in the 60-69 years age segment by 85% in the period 1972 to 2003. During the same time for those 70 years or older this figure was even higher, reaching 91% (Grimm, Lohmann, Heinsohn, Richter, & Metzler, 2009). A direct comparison of travel propensity across different age segments in the years 1990 and 2004 also highlights this remarkable trend in Germany's senior population (Fig. 7).

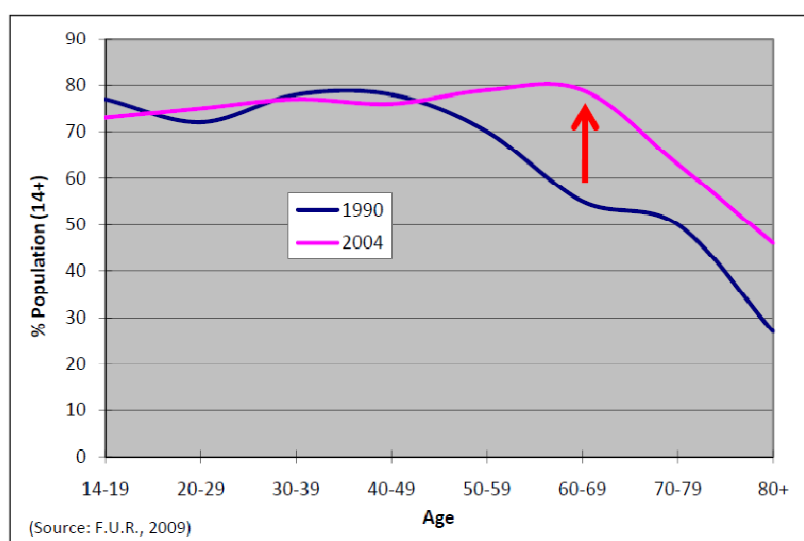


FIG.7: TRAVEL PROPENSITY 1990 AND 2004

The 'senior' market is, however, not a homogenous group but a diverse mix of people with rather different economic, social and health characteristics. This heterogeneity is also reflected in the wide range of age groups often covered by the term 'senior', ranging from 50+ to the 80+ age bracket. Most commonly, however, the term senior appears to be reserved for those 60 years or older (Petermann, Revermann, & Scherz, 2006). Due to substantial gains in post working life leisure time coupled with more disposable income and higher levels of education as well as improved and prolonged levels of physical and mental mobility, long term growth prospects in the senior travelers market segment can be expected (Petermann et al., 2006; Forschungsgemeinschaft Urlaub und Reisen, 2004). Already between 1993 and 2007 a 40% increase in the number of tourists within the 60+ age group and an even higher percentage increase in the number of holiday trips undertaken by this age segment was noted (Grimm et al., 2009). Demographic change certainly contributes to these growth figures since statistically an increasing number of people join the 60+ age category every year. However, they are also seen to reflect continued tourism habits as these seniors have been enjoying travel and related leisure activities for many years (Grimm et al., 2009).

The implications of demographic change for tourism have been frequently highlighted in academic debate (e.g. Arnaschus, 1996; Danielsson & Lohmann, 2003; Dann, 2001; Haehling von Lanzener & Klemm, 2007; Hensel, 1988; Javalgi, Thomas, & Rao, 1992; Lohmann & Danielsson, 2001) and it appears that high expectations on the quality of tourism products and services, price consciousness, experience and well informed decisions

characterise the senior tourism market (Grimm et al., 2009). This is certainly also true for the health tourism sector, where the demand for health and wellness related goods and services by the 60+ consumer generation when on holidays or even as a motivation for particular travel choices, is seen as an important driver for the sector's impressive growth over the past 20 to 30 years (Opaschowski, 2007; Fontanari & Partale, 2004). These seniors tend to value health and wellness particularly highly. Often referred to as 'best agers' they bring to their statistically increased life expectancy the desire to age well and, as much as possible, healthily.

Attracting a wide range of health conscious consumers, traditional 'Kur' destinations, spas, health resorts and hotels with a range of fitness and sport offerings, beauty care services, relaxation and meditation activities, healthy lifestyle and weight loss programs as well as other health and wellness related products will therefore constitute important columns of Germany's tourism sector in the years to come.

Conclusion and Future Outlook

As outlined in this paper, after decades of stringent reforms the German health sector is no longer necessarily perceived by many as a burden on the national economy but rather as an opportunity for future economic growth. This shift from a public health insurance system to a modern health economy is based on the country's emerging second health care market with its stronger focus on (privately funded) preventative measures complemented by greater health awareness across all sectors of society. These developments have led to growth opportunities for a range of health related products and services including those in the tourism sector. The industry has benefited from a more holistic understanding of health with a shift in focus away from the treatment of a patient towards accommodating the health related needs and expectations of a paying guest. These include, for instance, privately funded wellness and fitness offerings, spa treatments, healthy lifestyle programs and preventative health measures as part of a health tourism experience. One of the drivers of this extraordinary development is demographic change in form of an increasingly ageing society. As was highlighted in the paper, it is particularly the senior market that offers the greatest growth potentials for the health tourism sector. The needs and expectations of health tourists are, however, rather diverse and expressed in a range of different health-oriented tourism segments. These span from a strong emphasis on relaxation, wellness and pampering to curative or preventative medical services. At the same time excellent quality at a reasonable price is highly sought after so that in the future suppliers of health tourism related products and services not only need to be able to respond to increasing demand for highly individualised and specialised packages. Rather they will have to pay particular attention to the quality of their offerings to maintain a competitive edge in an expanding market. This could be done, for instance, with the introduction of particular quality labels, accreditation programs and associated quality control. In this context, a stronger local and regional collaboration amongst various health tourism providers will become a crucial prerequisite for the future development of the sector (Lohmann, 2010; Pforr, Pechlaner, Locher, & Jochmann, 2011).

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