Financial position of medical spas – The case of Slovakia

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Abstract
Slovak spas are part of the public healthcare system. This system is under pressure due to the demographic trend of an ageing population and increasing healthcare costs, including costs expended by health insurance companies on spa care. The aim of this research note is to describe the relationship between medical and non-medical forms of spa tourism. By means of a case study, it describes the importance of public health insurance to the occupancy rate of accommodation capacity, the manner of payment for spa care and its medical or wellness character. In addition, it analyses the current financial situation of these operations. The traditional exploitation of natural healing springs for treatment, its connection to the public health insurance system and the level of spa treatments result in the prevalence of medical stays.

Keywords
financial analysis, health insurance, health tourism, spas

Introduction
As stated by Gustavo (2010):

faced with the expansion and privatisation of the healthcare scope, there has been a proliferation and diversification of services and facilities like spas, where leisure and health cross paths and which, in view of their growing relevance, have been entitled health tourism or health and wellness tourism. This new conceptual designation not only reflects the growing emphasis on the wellness perspective of health, but also significant growth in this niche market and its consequent specialisation.
European countries that relied on visitors being subsidised by their respective National Health Insurance Systems also experienced a downturn of business in their spa resorts over the last decade of the twentieth century. However, this has changed in the wake of the wellness movement, and the new environment has encouraged many hot and mineral spring towns to reinvest in their natural resources and combine the use of healing waters with new and upgraded wellness resorts and retreats. (Erfurt-Cooper, 2009)

The Slovak healthcare system has been under increasing pressure over the past decade due to escalating healthcare costs and the 2008 financial crisis. These changes have also had a significant impact on the health and wellness tourism market and pose challenges as well as opportunities for the industry (Derco, 2014). On the other hand, wellness products are being shifted to the hotel industry, as they are not linked to natural healing resources. The hitherto released publications concerning Slovak spas (Cuka and Rachwal, 2013; Kotikova and Schwartzhoffova, 2013; Kučerová et al., 2010; Kučerová, 2013; Matlovičová et al., 2013) do not describe the relation of medical versus wellness stays to the total performance figures for those undertakings. Therefore, the aim of this article is to analyse the importance of public health insurance, medical spa treatments in relation to the total rate of occupancy of the accommodation capacities of the spas in 2005–2013. Besides this, it also analyses their current financial situation.

**Methodology**

Of the various methods of analysis available, a case study approach was considered to have the key requirements for our line of inquiry as it illuminates the complex processes surrounding economic aspects and subsequent impacts on the spa tourism industry. This analysis has been compiled using secondary data sources, such as statistical publications (Health Statistics Yearbook of the Slovak Republic 2005–2013 (2006, 2007, 2008, 2009, 2010, 2011, 2012, 2014, 2015); Spa tourism 2014/2013). Information concerning the numbers of domestic and foreign clients, the manner of payment for the treatments they receive in spa resorts and the type of diseases treated are annually published by the National Health Information Centre in its yearbooks (Health Statistics Yearbook of the Slovak Republic 2005–2013). However, the information only includes data regarding stays focused on medical spa tourism. Data on the capacity and the total number of accommodated persons in Slovak spa facilities are based on a report which is prepared annually by the Slovak Tourist Board (2015) based on data from the Statistical Office of the Slovak Republic. The comparison of the total number of accommodated persons and the number of clients using spa care for medical treatment purposes makes it possible to estimate the size of the wellness segment indirectly.

In Slovakia, there are currently 20 companies operating natural medical spas and 8 companies operating ‘spa sanatoria’. Out of them, 21 spas have the legal status of a business (limited liability company or joint-stock company). The other entities have the legal status of a non-profit, state-owned or government-subsidized organization. Analysis of financial indicators (Table 2) is only aimed at businesses and based on the information published on the portal www.zisk.sk. When assessing this group, medians were worked out for the chosen ratios (return on sales, return on equity, Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA), cash ratio, acid test ratio, current ratio, average collection period, average payment period and Debt to total assets ratio) for 2012–2014.
Results and discussion

Spas, typically, are medical spas which offer healthcare aimed at stabilizing the state of health, regeneration or prevention of diseases and which exploit natural healing waters or climatic conditions suitable for treatment purposes (Mineral Spring Spas). Spa care indicated for health reasons is fully (category A) or partially (category B) covered by public health insurance. The indications and length of medical stays (21–28 days) are set forth in Act No. 577/2004 on the Scope of Health Care Covered by Public Health Insurance and on Payments for Services related to the Provision of Health Care. Category A includes indications where healthcare is fully covered by public health insurance, but accommodation and catering services are covered by public health insurance only partially (only a statutory charge is paid). Category B includes indications where healthcare is covered fully by public health insurance but accommodation and catering services are not. The financial stability of these undertakings is based on the balance between medical products covered by public health insurance and medical and wellness products reimbursed by patients. An example from the Czech Republic shows that government interference can jeopardize the financial stability of those operations. Legislative amendments dated 2013, and the restrictive indication list, shortened the length of a stay from 4 to 3 weeks for certain diseases, restricted repeated stays and excluded certain diseases so that they are no longer reimbursed by health insurance companies. These changes have resulted in lower visitation rates and revenues. While insurance companies paid an amount of 153 million (USD) in 2012, in 2013, it was only 77 million (USD). As problems for spas in the Czech Republic were mounting, the legislation was amended once again. Since 2015, the length of a stay has again been extended to four weeks in the case of certain diseases, and the regulatory charges have been cancelled. Spas are recovering and their economic results are almost the same as before, though the policyholder visitation rate has not returned to the level reached in 2010 or 2011 before the restrictive measures were implemented. Spas have again gained the trust of banks, which makes it possible for them to borrow money for investments (COT business, 2015). Reform of the healthcare system and reducing spa care costs in the Czech Republic (Attl and Čertík, 2011) or in Germany (Pforr and Locher, 2012) have affected the demand for spa care in other central European countries, as well. To overcome these challenges, officially recognized spas within the Czech Republic (Kiralova, 2014) and Germany now more and more develop health and wellness promotions as a second business platform alongside more traditional medical stays.

Spas in the Slovak Republic operate 99 accommodation facilities. In 2014, those facilities accommodated 299,032 guests and recorded 2,617,609 overnight stays. The percentage of spa tourism compared to the total number of overnights in accommodation facilities in Slovakia reached 24% in 2014 (Slovak Tourist Board, 2015). The rate of occupancy of permanent beds in spas is much greater than the Slovakia-wide average rate of occupancy of permanent beds in the accommodation facilities (Table 1). After 2008, the number of foreign visitors dropped significantly. In the following years, their number did not return to the pre-crisis level either (Table 1). The spas’ main markets include Germany, the Czech Republic, Israel, Russia, Austria and Poland (Slovak Tourist Board, 2015). The decrease was attributed not only to the economic crises but also to strong Euro exchange rates after its introduction in Slovakia in 2009 (leading to a decrease in the number of visitors from the Czech Republic and Poland). While the number of domestic visitors declined in 2009 (Table 1), their number of overnights increased. Between 2005 and 2013, the percentage of medical stays covered by public health insurance in the total number of domestic visitors was 29.14%. The percentage of medical stays reimbursed by domestic clients reached
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</tr>
</thead>
<tbody>
<tr>
<td>Number of accommodation facilities</td>
<td>67</td>
<td>67</td>
<td>94</td>
<td>94</td>
<td>94</td>
<td>94</td>
<td>89</td>
<td>100</td>
<td>101</td>
<td>99</td>
</tr>
<tr>
<td>Number of rooms</td>
<td>6140</td>
<td>5862</td>
<td>6165</td>
<td>6375</td>
<td>6577</td>
<td>6114</td>
<td>6003</td>
<td>6101</td>
<td>6346</td>
<td>6448</td>
</tr>
<tr>
<td>Number of beds</td>
<td>11,804</td>
<td>11,314</td>
<td>11,916</td>
<td>12,370</td>
<td>12,793</td>
<td>12,021</td>
<td>11,795</td>
<td>11,841</td>
<td>12,302</td>
<td>12,888</td>
</tr>
<tr>
<td>Number of domestic visitors</td>
<td>139,877</td>
<td>159,339</td>
<td>178,895</td>
<td>192,051</td>
<td>180,983</td>
<td>194,705</td>
<td>196,085</td>
<td>194,500</td>
<td>210,311</td>
<td>230,343</td>
</tr>
<tr>
<td>Of which medical stays reimbursed by insurance company</td>
<td>38,662</td>
<td>41,369</td>
<td>54,806</td>
<td>55,294</td>
<td>56,706</td>
<td>57,700</td>
<td>58,867</td>
<td>55,799</td>
<td>60,584</td>
<td>–</td>
</tr>
<tr>
<td>Health insurers’ expenses on spa care in thousand USD</td>
<td>–</td>
<td>24,958</td>
<td>31,081</td>
<td>34,339</td>
<td>33,910</td>
<td>34,375</td>
<td>43,322</td>
<td>51,484</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Of which medical stays reimbursed by patient</td>
<td>40,426</td>
<td>51,652</td>
<td>49,363</td>
<td>47,063</td>
<td>41,538</td>
<td>45,118</td>
<td>48,425</td>
<td>52,786</td>
<td>53,417</td>
<td>–</td>
</tr>
<tr>
<td>Number of foreign visitors</td>
<td>88,945</td>
<td>93,921</td>
<td>97,269</td>
<td>92,755</td>
<td>60,326</td>
<td>64,801</td>
<td>65,430</td>
<td>61,880</td>
<td>68,118</td>
<td>68,689</td>
</tr>
<tr>
<td>Of which medical stays reimbursed by insurance company</td>
<td>1546</td>
<td>744</td>
<td>796</td>
<td>454</td>
<td>378</td>
<td>600</td>
<td>524</td>
<td>465</td>
<td>245</td>
<td>–</td>
</tr>
<tr>
<td>Total number of visitors</td>
<td>228,822</td>
<td>253,260</td>
<td>276,164</td>
<td>284,806</td>
<td>241,309</td>
<td>259,506</td>
<td>261,515</td>
<td>256,380</td>
<td>278,429</td>
<td>299,032</td>
</tr>
<tr>
<td>Average number of overnights spent by domestic visitors</td>
<td>9.4</td>
<td>8.9</td>
<td>8.9</td>
<td>9.5</td>
<td>10.2</td>
<td>9.9</td>
<td>9.6</td>
<td>9.6</td>
<td>9.4</td>
<td>9</td>
</tr>
<tr>
<td>Average number of overnights spent by foreign visitors</td>
<td>9.5</td>
<td>9.1</td>
<td>8.8</td>
<td>8.5</td>
<td>9.1</td>
<td>8.6</td>
<td>8</td>
<td>8.5</td>
<td>8.4</td>
<td>8</td>
</tr>
<tr>
<td>Rate of occupancy of permanent beds in spa undertakings (%)</td>
<td>52.6</td>
<td>59.9</td>
<td>62.8</td>
<td>62.3</td>
<td>58.9</td>
<td>63</td>
<td>60.9</td>
<td>59.9</td>
<td>62</td>
<td>62.4</td>
</tr>
<tr>
<td>Rate of occupancy of permanent beds in accommodation facilities in Slovakia (%)</td>
<td>27.3</td>
<td>28.8</td>
<td>27.7</td>
<td>26.9</td>
<td>22.4</td>
<td>22</td>
<td>21.7</td>
<td>21.4</td>
<td>22.3</td>
<td>24.8</td>
</tr>
</tbody>
</table>

26.10% of the total number of domestic visitors in the given period. The medical stays of foreign visitors covered by public health insurance accounted only for 0.83% of the total number of foreign visitors in the reporting period. As to the medical stays of foreign visitors, most of them were self-payers (nearly 55.5%).

According to J. Zálesáková, President of the Association of Slovak Spas (personal communication, 10 February 2016):

Wellness products in medical spas are, more or less, a supplementary activity and mostly used by domestic clients. The advantage is that those products also have a medical history – they are referred to as medical wellness products, in contrast to wellness products that are offered by common hotel facilities. The Slovak Republic has superior-quality medical spa products, and, therefore, this segment can be expected to be increasingly sought-after among both domestic and foreign clients to whom the European Parliament and Council Directive 2011/24/EU on the Application of Patients’ Rights in Cross-border Healthcare applies. The preconditions for the development of this segment can also be seen in the estimated demographic figures and in the development of the state of health of the population in Europe.

Although the total visitation rate rose, the return on sales ratio went down in 2014. However, the return on equity ratio has been developing favourably. To compare the profitability of firms on an international basis, Table 2 shows the EBITDA ratio, as it excludes taxes and interest and, at the same time, allows for depreciation. Between 2012 and 2014, liquidity ratios decreased. Concurrently, in 2014, the difference between the average collection period and the average payment period increased, which suggests a worse payment discipline on the part of those undertakings. Borrowed capital represents nearly one-third of total assets.

### Table 2. Medians of the chosen financial ratios of the spa undertakings in Slovakia.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Return on sales (%)</td>
<td>0.38</td>
<td>2.31</td>
<td>1.74</td>
</tr>
<tr>
<td>Return on equity (%)</td>
<td>0.16</td>
<td>2.01</td>
<td>2.5</td>
</tr>
<tr>
<td>EBITDA (USD)</td>
<td>380,158</td>
<td>690,352</td>
<td>584,553</td>
</tr>
<tr>
<td>Cash ratio</td>
<td>0.8</td>
<td>0.42</td>
<td>0.24</td>
</tr>
<tr>
<td>Acid test ratio</td>
<td>1.97</td>
<td>1.59</td>
<td>1.42</td>
</tr>
<tr>
<td>Current ratio</td>
<td>2.05</td>
<td>1.74</td>
<td>1.43</td>
</tr>
<tr>
<td>Average collection period</td>
<td>37.05</td>
<td>37.3</td>
<td>33.8</td>
</tr>
<tr>
<td>Average payment period</td>
<td>37.2</td>
<td>35.8</td>
<td>42.6</td>
</tr>
<tr>
<td>Debt to total assets ratio</td>
<td>0.33</td>
<td>0.32</td>
<td>0.36</td>
</tr>
</tbody>
</table>

Source: Prepared by the authors according to the information published at http://www.zisk.sk/

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### Conclusion

Between 2005 and 2013, the proportion of medical stay clients to the total number of visitors did not vary significantly. It was due to spas focusing on medical care (Smith and Puczko, 2010) and the good standard of medical services rendered. In this segment, greater emphasis is typically placed on factors such as medicinal waters, medical assistance and staff (Alén et al., 2006), as
opposed to the wellness segment, the preferences of which have been defined by Denizci Guillet and Kucukusta (2016), Kamata and Misui (2015). Concurrently, the number of domestic clients increased in the reporting period. After 2008, the economic crisis resulted mainly in a lower number of foreign visitors. Domestic health insurance companies did not apply a restrictive policy as to the number of patients sent to undergo spa treatments. In contrast to the Czech Republic, no substantial amendments have been made to Slovak Act No. 577/2004 on the Scope of Health Care Covered by Public Health Insurance and on Payments for Services related to the Provision of Health Care. Act No. 363/2011 has only brought a reclassification of certain diseases within categories A and B. Stable spa care legislation and the health insurers’ contracting policy had a substantial impact on reported economic results.

The first limitation of this study is the fact that it focuses on the reality of one single country. It is important to stress that Slovakia is located in Central Europe, a region where the spa sector and its social status are more prevalent than in other parts of the world. The second limitation of this study pertains to its period of application, which for technical and financial reasons was limited to the years 2005–2013 and 2012–2014, when a full decade of application would have been preferable. The third limitation is the fact that the total number of accommodated clients also includes persons accompanying medical spa clients. On the other hand, in case of spa residents, spa treatment can take the form of an outpatient service.

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