THE ECONOMIC IMPACT OF WELLNESS TOURISM WITH A FOCUS ON THE SPA INDUSTRY IN THE CZECH REPUBLIC

Master Thesis

In partial fulfillment of the requirements
for the degree

„Master of Arts (MA)"

Master Program:

„International Health & Social Management"

Management Center Innsbruck

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Innsbruck, June 20th 2016 ……………………………………..

Acknowledgement

I would like to thank my supervisor **Dr. phil. Mgr. Bc. Vladan Antonovic, Ph.D.** for his guidance and support during the entire process of writing this thesis.

Additionally, special thanks go to **Ing. Jiří Dědek, MBA**, executive director of Spa Luhačovice, who was willing to do an interview with me and provided detailed and clarifying answers.

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List of abbreviations

CAGR	Compound Annual Growth Rate
CZK	Czech Koruna (Czech Crown)
CZSO	Czech Statistical Office
ESPA	European Spas Association
GDP	Gross Domestic Product
GWI	Global Wellness Institute
GWS	Global Wellness Summit
GWTC	Global Wellness Tourism Congress
HDI	Human Development Index
IHIS	Health Information and Statistics of the Czech Republic
ISPA	International Spa Association
SPAA	The Spa Association
UNPD	United Nations Development Programme
UNWTO	World Tourism Organization
WB	World Bank
WHO	World Health Organization
WEF	World Economic Forum
WTTC	World Travel & Tourism Council
WTW	Wellness Tourism Worldwide

1 Introduction

1.1 Problem definition

Tourism started slowly gaining in importance after the end of World War II. With the increased standards of living and relative political stability in most developed countries, combined with a large infrastructure modernization, tourism began steadily growing while changing the structure of the world's economy. International tourism experienced real boom starting in the 1990s. It has become one of the largest and fastest growing economic sectors in the world. As of 2014, international tourism accounted for 30% of the world's exports of services which corresponds to about 6% of overall exports of goods and services (UNWTO, 2015).

Recently, there has been a growing movement to change the nature of travelling to include health-related activities. Nowadays, some travelers take trips to exclusively focus on improving and maintaining their personal health and well-being. They focus on a so called "wellness tourism". It is a travelling associated with the pursuit of maintaining or enhancing one's personal well being (GWI, 2015). Although more travelers have shifted their focus towards wellness relatively recently in global perspective, wellness activities have been practiced since ancient times. The Romans were already renowned for their baths used for healing and relaxing purposes which contributed to the development of recreational and wellness facilities (WTW, 2011; Cooper, 2009). Another example could be the Japanese who have travelled to bath in hot springs known as onsens for hundreds of years.

Worldwide obesity has nearly doubled since 1980 (WHO, 2015), chronic and cardiovascular diseases are on the rise, people have to deal with symptoms associated with an increased work related stress and the general fast-paced unhealthy lifestyle consequently causes more illnesses. Such challenges mostly concerned the developed countries; however they have become increasingly present in the developing countries as well. Though there is a higher amount of people dealing with these problems, there is also an increasing number of people trying to prevent this, finding ways to take a better care of their health. The wellness industry is driven thanks to health-conscious consumers. Commonly speaking, this industry includes complementary and alternative medicine, spas, fitness activities, weight-loss treatments, preventive and personalized health and more as well as the wellness tourism. The concept of wellness comprises of domains such as physical, mental and spiritual health, self-responsibility and intellectual development, social harmony, environmental sensitivity and occupational satisfaction (Smith and Puczkó, 2014).

Wellness tourism is positioned between the expanding wellness industry and the massive global tourism economy. It is currently one of the fastest growing segments of international and domestic tourism and this trend is expected to continue in the future. It currently represents about 6% of all domestic and international trips but 14% of overall expenditures. This means that an average wellness traveler brings much greater economic impact spending more than double the amount of a regular tourist. 11.7 million jobs are directly generated through wellness tourism, delivering an overall global economic impact of $1.3 trillion which corresponds to 1.8% of global GDP in 2012. Domestic wellness tourism prevails over international with 84% of the total tourism trips and 68% of all expenditures. Global Wellness Institute (GWI) reports that Europe is the leading region with over 200 million wellness trips ahead of North America and Asia. However the most money is spent in the North America ($181.0 billion). Highest expenditures are in United States, followed by Germany, Japan, France and Austria. Wellness tourism worldwide is expected to grow 9.1%[1] annually between 2012 and 2017 increasing the global market from $438 billion to $678.5 billion (GWI, 2015). During the same period, the Czech Republic is projected to record 8.9% annual growth, corresponding to 2.1 million trips added in total. It is a 6th fastest growing market in Europe and 21th globally (GWS, 2013).

Spa represents a core business within the wellness tourism. The expenditures by spa tourists account for about 41% of the overall wellness tourism expenditures ($179.7 billion). Between 2007 and 2012, there was an 11.1% average annual growth in spa tourism expenditures (GWI, 2015) compared to 4.3% average annual growth[2] in general international tourism expenditures (WB, 2016). Such data confirms that there is an increasing demand for spa services and that the spa tourism grows considerably faster than general tourism.

[1] Almost 50% faster than overall global tourism (GWI, 2015)
[2] Own CAGR calculation based on data available at http://data.worldbank.org/

The Czech Republic was picked as a country with a long-standing tradition in the spa industry. Czech spa developed the most in the 18th century which was connected to the scientific and technological progress at that time (Jakešová, 2010). Over time, the spa tourism industry has become an important financial source for many regions which makes it an interesting topic to analyze. Among tens of spa towns scattered around this country, Luhačovice, the largest spa in the Moravian region and a member of the biggest spa group in the Czech Republic, was chosen for a further analysis (Spa Luhačovice, 2016).

1.2 Goals and research question

The main goal of this thesis is to come up with a comprehensive overview of the spa tourism in the Czech Republic and to analyze and compare the Spa Luhačovice to the overall state of spa industry and wellness in the country.

The first section of the thesis will be focused on the theoretical part of wellness and spa tourism, explaining crucial terms and its importance and economic impact. Additionally, latest developments of the wellness and spa tourism in Europe will be provided. The next section will briefly introduce the Czech Republic, its economy as well as general tourism in this country. This is important for further development comparisons of the spa tourism and the overall tourism. The main part will be built around the spa tourism industry in the Czech Republic which will be thoroughly analyzed along with a case study of the Spa Luhačovice. Furthermore, its current position within the growing wellness tourism will be determined. The aim is to provide a complete up-to-date analysis of the Czech spa industry and characterize its significance. In the process of writing this paper, following research question will be answered:

What is the current state of spa and wellness tourism industry in the Czech Republic and how strong is the position of Spa Luhačovice?

1.3 Methodology

The first part of the analysis will be based on the collection of secondary data from relevant and reliable sources. Czech Statistical Office (ČSÚ) and the Institute of

Health Information and Statistics of the Czech Republic (IHIS) are the main organizations in the country whose data will be used. While Czech Statistical Office tracks the overall tourism in a given spa town, IHIS whose founder is the Ministry of Health, observes the patients directly in the spa facilities. However, it is focused more on medical rather than wellness tourism which are necessary to distinguish. The Global Wellness Institute together with SRI International provides the needed data for analyzing the overall economic impact of wellness tourism, not only in the Czech Republic. All data will be sorted, connected, compared and combined in order to draw conclusions from relevant indicators. Special attention must be paid to the methodology used in the collection of secondary data and the reflection of such differences.

In the second part, an analysis of Spa Luhačovice will be carried out. First of all, financial reports and tourism data from the past years will be examined. Data will be evaluated and compared to the overall state of the spa industry in the Czech Republic. Guided interview with a spa representative will be carried out based on the initial findings of the analysis.

2 Wellness tourism industry

2.1 Difference between wellness and medical tourism

Before going into more detail of the wellness industry, it is necessary to point out the distinction between wellness and medical tourism which are two different activities each meeting different traveler or patient needs. Medical tourism involves people who travel to different place to get a treatment for a disease, undergo a cosmetic surgery procedure or who are just seeking a lower cost and higher quality of care than they would receive at their home country. On the other hand, wellness tourists are people who travel to a different place to proactively pursue activities that maintain or enhance their personal health and well-being or who are looking for authentic, location-based experiences or therapies that are not available for them at home. Unlike being in the passive role when involved in the medical tourism, a wellness traveler must realize a self-responsible active participant (Voigt, 2013; Global Spa Summit, 2011).

Although there are some areas that overlap, separate marketing should be done for both activities. There has been a lot of confusion about the usage of wellness and medical tourism in the past. Countries also vary in their data collection. The term “health tourism” should be avoided as it is not clear if this term refers to one or the other or it is just linking the two terms. The wellness tourism is also larger than medical tourism. Focusing solely on the international numbers, the size of wellness tourism is $139 billion in 2014 as compare to an estimated $50-60 billion of the medical tourism (GWI, 2015). In the annex, a chart by Colin M. Hall from his book on Medical Tourism is to be found which further illustrates the overlap and differences between medical and wellness tourism.

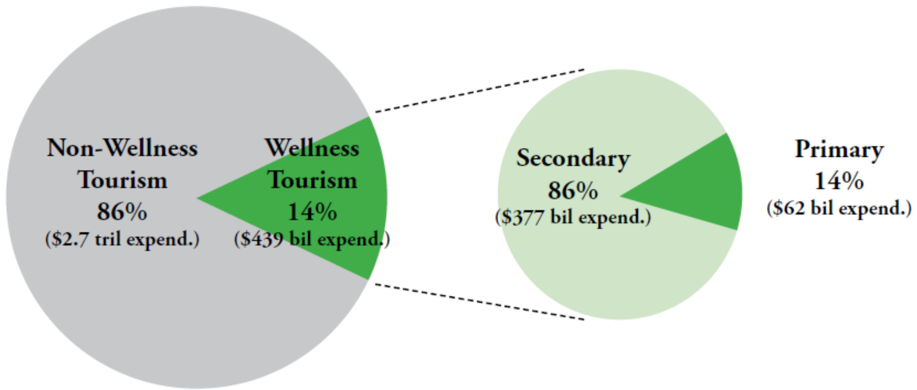
2.2 Measurement and the size of wellness tourism economy

As the segment of wellness tourism is not easily defined, measuring the overall impact can be a tricky. The Global Wellness Institute counts all expenditures of people who are defined as wellness tourists towards wellness tourism. In other words, these expenditures may not necessarily be associated with wellness but are part of the expenditures of the wellness tourist on his/her trip. For example, a wellness traveler can find an accommodation in a wellness facility such as spa or in a traditional hotel, both of which will count towards wellness tourism economy as long as the primary or secondary trip purpose is to pursue wellness. While wellness is the sole purpose or main motivating factor for a primary purpose wellness traveler, secondary purpose wellness traveler seeks to maintain wellness while taking any trip (GWI, 2015). The expenditures are better illustrated in the following chapters.

In the following subchapters, most of the information will be based on the reports made by Global Wellness Institute as it is the only organization that provided comprehensive and consistent overview of the sector and makes its data publicly available. The research was prepared by GWI in cooperation with the SRI International.

According to the Global Wellness Institute, wellness tourism constitutes a $438.6 billion global market (2012), taking a considerable share in a $3.2 trillion global tourism economy (Euromonitor, 2014). Out of the $438.6 billion, 86% ($377bn) is spent by secondary and 14% (62bn) by primary wellness tourists. This means that primary wellness tourists spent about 2.3%[3] of all tourism expenditures. Chart 3 gives an overall perspective of the expenditure structure (GWI, 2015).

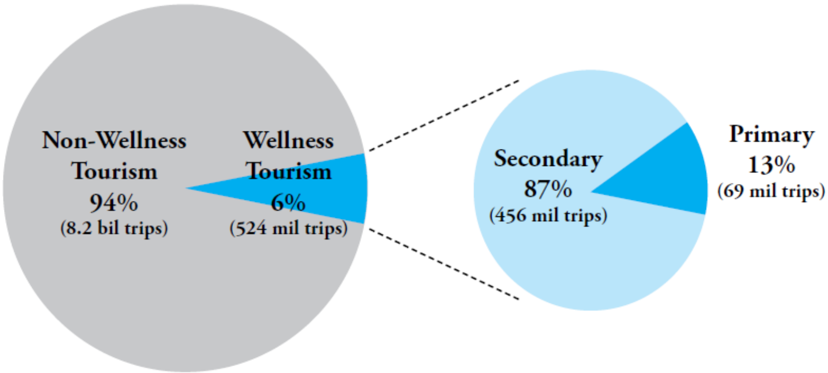
Chart 1: Total expenditures 2012 – comparison of wellness and non-wellness



Source: (GWI, 2015)

[3] $62 billion/$3.2 trillion = 0.02296 ≈ 2.3%

Chart 2: Total trips 2012 – comparison of wellness and non-wellness



Source (GWI, 2015)

In 2012, there were approximately 8.7 billion international & domestic trips taken in total worldwide. 524 million of these trips count towards wellness tourism which corresponds to about 6%. By comparison with the 14% of the wellness tourism expenditures, it is apparent that an average wellness tourist brings much greater economic impact than an average tourist. In fact, based on own calculations, an average tourist (domestic or international) spends on average approximately $330[4] on a trip compared with $827[5] of a secondary wellness tourist and $899[6] of a primary wellness tourist (GWI, 2015).

Not only do the tourism expenditures bring in money to the respective economies, they also generate new jobs. In 2012, 11.7 million jobs were generated directly through wellness tourism with another 15.8 million being an indirect result of wellness. The total economic impact was over $1.3 trillion for the world economy (SRI International, 2015).

Chart 3: Economic impact of global wellness tourism in 2012

	Wellness Tourism Direct Impact	Indirect & Induced Impacts	Wellness Tourism Economy-Wide Impact
Wellness Tourism Expenditures	$438.6 billion	$875.9 billion →	*$1314.5 billion*
Wellness Tourism Employment	11.7 million jobs	15.8 million jobs →	*27.5 million jobs*

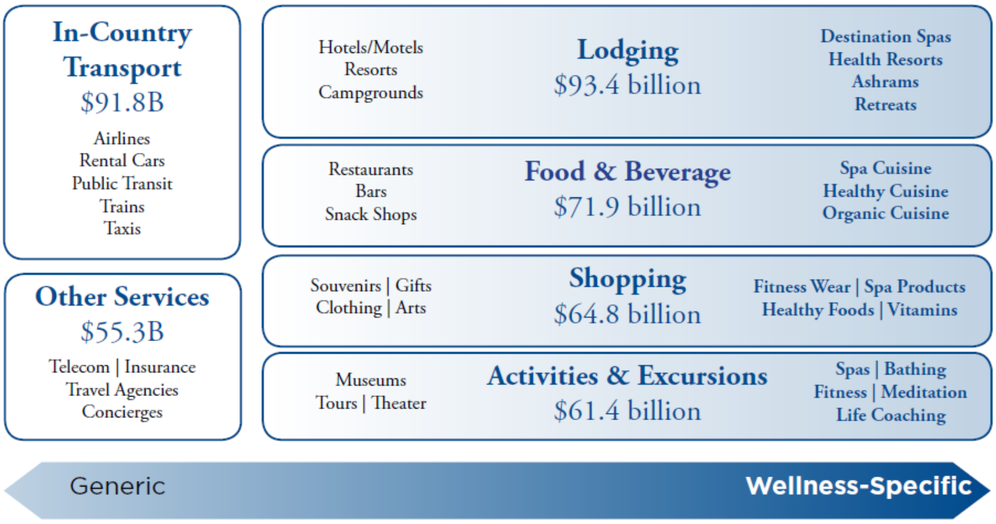
Source: (SRI International, 2015)

4 $2.7 trillion/8.2 billion trips= $329.3 per trip
5 $377 billion/456 million trips= $826.8 per trip
6 $62 billion/69 million trips= $898.6 per trip

The multiplier effect (indirect & induced impacts[7]) covers the wider impact and the effect of economic activity of one industry on many other industries. The indirect impacts compile through the supply chain and investment in tourism while the induced impacts are expenditures of those working within the industry (WTTC, 2015).

2.3 Structure and positioning of the wellness tourism economy

Chart 4: The structure of wellness tourism economy (2012)

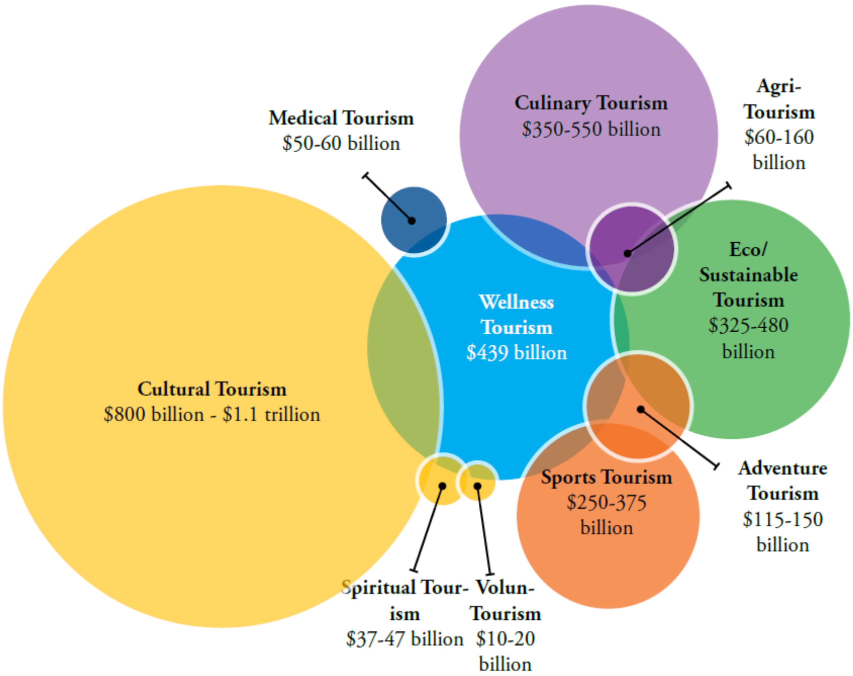


Source: (GWI, 2015)

Table 4 clearly illustrates how the expenditures are spread throughout the wellness tourism economy which in total constitutes a $438.6 billion global market. It also shows that a large percentage of these expenditures are only indirectly linked to the wellness-specific activities. Most of the money is spent on lodging ($93.4 billion) followed by transportation ($91.8 billion) and food & beverage ($71.9 billion). In country-transport and other services such as insurance are non-wellness related services; however they are used by primary or secondary wellness tourism travelers; thus counting towards the wellness expenditures. Lodging, food & beverage, shopping and activities & excursions can be either wellness-specific or generic. 68% of all the wellness expenditures are domestic and 32% are spent abroad (GWI, 2015).

[7] As seen in chart 3

Chart 5: Positioning of wellness tourism within the global tourism industry (2012)



Source: (SRI International, 2015)

Chart 5 indicates the position of wellness tourism within the world's tourism industry and shows how it overlaps with other niche tourism segments. An example could be a "secondary purpose" wellness traveler who engages simultaneously in culinary tourism. The culinary and eco/sustainable tourism are estimated to be very comparable in size to the wellness tourism (GWI, 2015). Leading resort and hotel brands have gradually implemented services that include activities such as yoga classes, expanded gyms and spas, in-room fitness videos or locally sourced food offerings (Mangla, 2015).

2.4 Top countries in wellness

Taking a look at the top twenty countries in terms of domestic and international wellness tourism expenditures (Chart 6), eleven are located in Europe[8] showing the continent's leading position in wellness tourism. Not only do Europeans travel a lot domestically and within Europe, they take trips even outside of Europe and have

[8] Russia and Turkey are counted towards Europe in this case

often wellness as their primary focus. This comes from a long history of travel for wellness, therapeutic and preventive purposes (GWI, 2015).

As of 2013, the biggest wellness market in the world is in the United States ($180.7bn), way ahead of Germany ($46.2bn), France ($27.2bn), France ($22.2bn) and Austria ($15.7bn). These five countries account for 59% of the overall market but their share dropped down from 63% in 2012. The top twenty countries account for 85% of total global wellness tourism expenditures in 2013. The US also ranks number one for total wellness tourism trips taken and is the top destination for an inbound international wellness travel, with 7.1 million international inbound trips (2012) mostly coming from Europe and Asian higher-income countries (SRI International, 2015). Indonesia moved up to the top twenty for the first time in 2013 being at 41st position in 2012. There is a growing interest in Ayurveda and ancient arts of yoga and meditation which puts in India number one position for growth in wellness trips (Gregoire 2013; GWI, 2015).

Chart 6: Top 20 countries for domestic wellness tourism receipts/expenditures in 2013

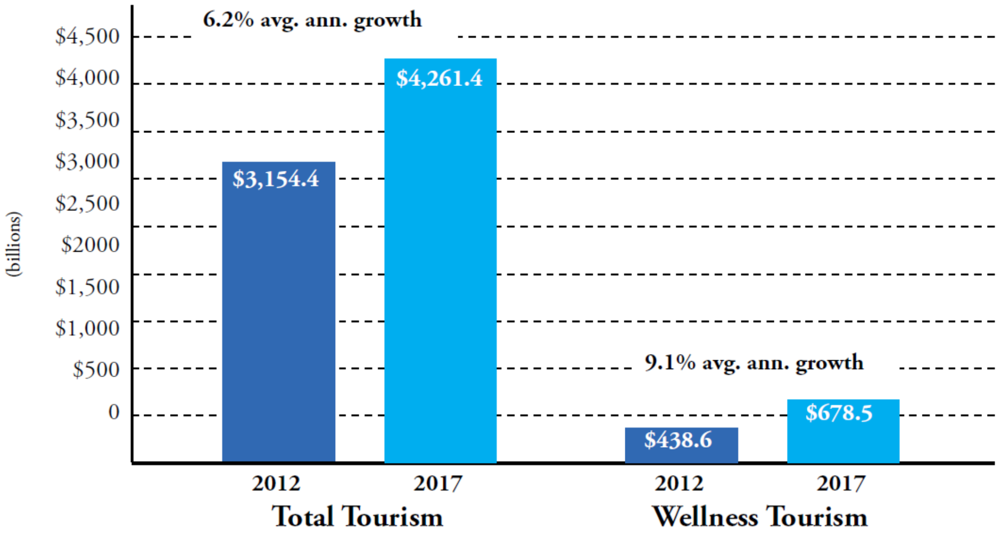
1	**United States**	**$180.7**	11	Mexico	$10.5
2	**Germany**	**$46.2**	12	India	$9.2
3	**France**	**$27.2**	13	Thailand	$8.8
4	**Japan**	**$22.2**	14	Spain	$7.9
5	**Austria**	**$15.7**	15	South Korea	$5.8
6	Canada	$14.8	16	Australia	$5.3
7	Italy	$13.3	17	Indonesia	$4.8
8	Switzerland	$12.7	18	Russia	$4.6
9	China	$12.3	19	Turkey	$4.5
10	United Kingdom	$12.0	20	Portugal	$3.4

Source: (SRI International, 2015)

2.5 Wellness tourism forecast and trends

The overall tourism is expected to grow 6.2% annually between 2012 and 2017 while wellness tourism is projected to grow by 9.1% per year during the same time period, almost 50% faster than the total global tourism. The wellness tourism was estimated to be $494 billion in 2013, accounting for a 12.7% increase over 2012. This trend is expected to continue as the consumer interests have changed and contributed to wellness tourism being one of the fastest growing forms of international and domestic tourism (GWI, 2015).

Chart 7: Total tourism and wellness tourism growth (2012-2017)



Source: (GWI, 2015)

Chart 8: Top countries for wellness tourism growth (2012-2017)[9]

Country	# of Wellness Trips Added (millions)	Average Annual Growth Rate	Country	# of Wellness Trips Added (millions)	Average Annual Growth Rate
United States	46.1	5.8%	**Turkey**	5.4	12.6%
India	36.0	22.1%	**Austria**	4.5	6.9%
China	33.3	19.3%	**Australia**	4.3	15.2%
South Korea	19.2	15.3%	**Poland**	4.1	12.4%
Germany	12.7	4.7%	**Chile**	3.5	17.3%
Russia	8.5	13.1%	**Spain**	3.5	6.2%
France	8.3	5.5%	**Brazil**	2.7	8.7%
Canada	7.4	6.0%	**Hungary**	2.4	8.9%
Mexico	7.0	10.0%	**Czech Republic**	2.1	8.9%
Japan	6.8	3.7%	**Malaysia**	2.0	12.8%
Thailand	5.5	14.3%	**Taiwan**	1.7	13.0%
Switzerland	5.4	8.9%	**Argentina**	1.6	11.4%

Source: (SRI International, 2015)

Wellness tourism growth is currently being driven by countries in Asia, Latin America and Middle East which account for over 50% of the projected growth in wellness trips between 2012 and 2017. This is because most of the countries in these regions are developing markets and the rising prosperity contributes to adoption of modern wellness-oriented lifestyle and prevention-focused practices (GWI, 2015).

[9] All figures include both international and domestic wellness tourism trips

Although the United States is expected to collect the most additional wellness trips between 2012 and 2017, its average annual growth rate is far below average. This can be associated with a relative saturation of already developed wellness markets and not as much room for growth. For example Germany and Japan, countries with a long wellness tourism tradition, will have recorded even smaller growth rates than the US. On the other hand, India and China are projected to have more than 30 million added trips added each during the same period corresponding to a roughly 20% annual growth. In the Czech Republic, 2.1 million arrivals/trips are expected to be added on an 8.9% average annual growth rate (SRI International, 2015).

According to an analysis done by WTW, the most popular wellness tourism services are beauty treatments (89% of respondents consider it as very popular, and popular), sport & fitness services (89%), leisure and recreational spas (85%) and spa & wellness resorts (83%), (WTW, 2011).

2.6 Wellness tourism in Europe

Europe is the region with the most combined international and domestic trips globally at 203 million trips (38.7% of total) in 2012 and ranks second in terms of expenditures with $158.4bn (36.1% of total) right behind North America. Domestic tourism prevails over international at 77% of all of the wellness tourism trips. Furthermore, 2.4 million jobs are created directly through wellness tourism and the total economic impact is estimated at $451.7bn. Expenditures are projected to rise annually by 7.3% between 2012 and 2017 (GWI, 2015). Susie Ellis, Chairman & the CEO of the GWTC noted: *“Europeans are the most sophisticated, experienced wellness- and prevention-focused focused travelers on the planet. They not only take frequent trips within their own countries and across Europe, they're also pegged as the largest source market for international wellness travel”*, suggesting the importance of European wellness travelers (McGroarty, 2014).

Germany ranks as number one country in terms of total wellness arrivals/trips (almost 50 million) as well as expenditures ($42bn) in 2012 representing nearly 1 in 10 wellness tourism dollars that are spent globally. The importance of international wellness tourism in Germany isn’t as high as the number of international arrivals is behind France and Austria. International arrivals in Germany account for only 11.4% of total arrivals as compared to 25.3% in France and 50.2% in Austria. It is interesting to notice how some high-income and more expensive countries have much higher wellness tourism receipts/expenditures than lower-income countries with higher number of wellness trips. For example Norway with a total of 2.3 million trips has expenditures of $2.22 billion as compared to the Czech Republic with 3.8 million trips and expenditures being a little over 1 billion. In other words, an average tourist[10] spends $272 per trip in the Czech Republic as opposed to $967 per trip in Norway. However, the scenario is different looking at the jobs created in each country. While in the Czech Republic, 48,400 jobs are created directly through wellness tourism, it is only 17,350 in Norway despite having much larger expenditures in the country. Highest number of jobs was created in Germany (over half a million), followed by France, United Kingdom, Austria and Italy (SRI International, 2015).

Chart 9: Top 20 wellness tourism countries in Europe (2012)

	Country	Market Size	Trips (in thousands)			Economic Impact
		Wellness Tourism Receipts/Expenditures ($ millions)	Total Wellness Arrivals/Trips	International Wellness Arrivals	Domestic Wellness Trips	Wellness Tourism Direct Employment (jobs)
1	**Germany**	$42198.8	49,254.9	5,623.4	43,631.4	559,038
2	**France**	$24079.5	27,255.7	6,900.3	20,355.5	287,172
3	**Austria**	$14033.7	11,289.1	5,675.0	5,614.1	160,503
4	**United Kingdom**	$12260.1	17,837.5	3,633.6	14,203.9	208,674
5	**Italy**	$11697.1	8,081.0	1,566.3	6,514.7	156,966
6	**Switzerland**	$11389.2	10,151.6	5,101.8	5,049.7	113,577
7	**Spain**	$7605.4	9,954.3	2,602.7	7,351.6	92,804
8	**Russia**	$3807.1	9,989.9	1,304.0	8,686.0	132,978
9	**Portugal**	$3419.7	3,441.8	1,419.7	2,022.1	92,462
10	**Greece**	$3307.3	4,471.6	1,835.1	2,636.5	71,148
11	**Turkey**	$3239.6	6,655.5	2,065.7	4,589.8	51,985
12	**Denmark**	$3123.8	5,814.6	1,153.0	4,661.6	38,344
13	**Sweden**	$2535.9	2,621.4	214.5	2,406.9	32,712
14	**Norway**	$2223.9	2,299.4	338.0	1,961.4	17,350
15	**Finland**	$2090.2	3,823.4	334.7	3,488.7	21,427
16	**Poland**	$2050.4	5,187.9	982.8	4,205.0	65,743
17	**Ireland**	$1557.8	2,946.8	1,179.1	1,767.7	14,323
18	**Netherlands**	$1479.2	1,530.3	272.7	1,257.5	46,438
19	**Hungary**	$1103.0	4,478.4	992.9	3,485.5	46,669
20	**Czech Republic**	$1059.9	3,883.2	909.1	2,974.2	48,421

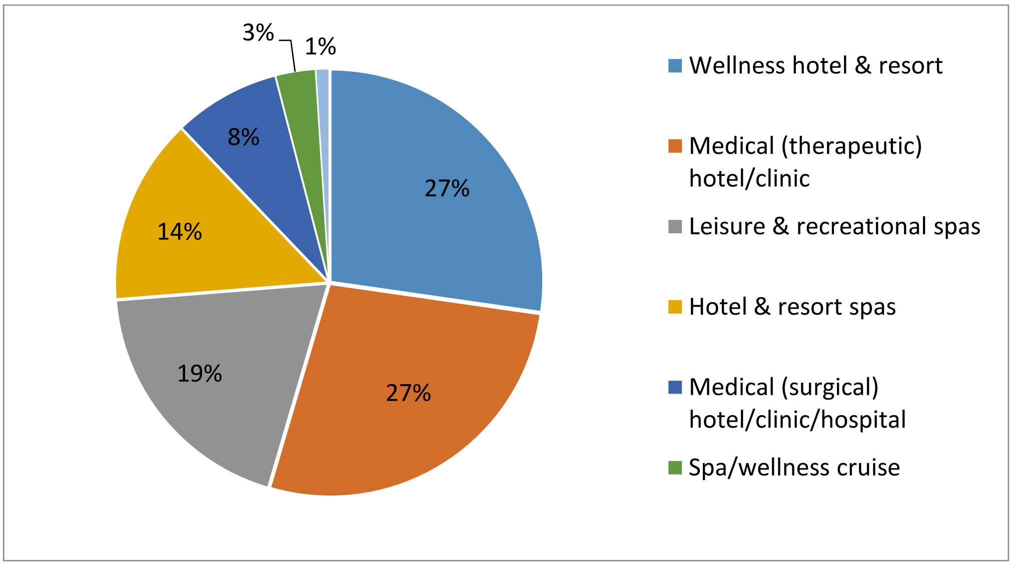
Source: (SRI International, 2015)

[10] Both domestic and international

Global Wellness Institute estimates that Europeans are likely to be the largest source market for international wellness travel. European consumers have a good knowledge about wellness and prevention, coming from a long tradition of bathing, sauna and other treatments. In many countries such as Germany, Austria, Switzerland and even in some of the Eastern European countries, there is a long tradition of travelling for Kur which involves various preventive, curative, therapeutic and rehabilitative therapies which are related to thermal waters, massage, hydrotherapy etc. (GWI, 2015). Furthermore, in many countries (ex. Austria, Hungary, Finland) tourism ministries are actively promoting wellness tourism and spa tourism offerings. Natural and environment in general are important all over Europe, particularly in Southern Europe. Natural healing assets are especially significant in Western and Central-Eastern Europe (WTW, 2011).

Chart 10 indicates the popularity of services in wellness in the Central & Eastern European region[11]. The two most favorite services include wellness hotel & resort and medical (therapeutic) hotel/clinic with 27% share each. This is followed by leisure and recreational spas and hotel & resort spas combining for 33% share. WTW predicts that trends of 2020 don't show any major changes. Nonetheless, there are new emerging global trends and the region should focus on producing innovation capacity and developing product diversification. Natural resources and healing assets remain popular and key factors in the region (WTW, 2011).

Chart 10: Central & Eastern Europe: Services in wellness 2011



Source: own illustration, data from (WTW, 2011)

[11] Region chosen because of the presence of the Czech Republic

3 Spa Industry

Similar to the wellness industry, the spa industry has emerged through a convergence of industries, traditions and therapeutic practices to become a global phenomenon. Spa industry includes a range of products and services which enhance well-being and general health. Different features from all over the world are present in this industry. Generally, spas are associated with hot springs or thermal bathing in both historical and modern concepts. The culture of spa has developed from traditions from all over the world, including Japanese onsens, Finnish saunas or Turkish hammams (Cohen; Bodeker 2008). International Spa Association (ISPA) defines spa as *places devoted to overall well-being through a variety of professional service that encourage the renewal of mind, body and spirit* (ISPA, 2016).

3.1 Spa industry and its position within the wellness tourism

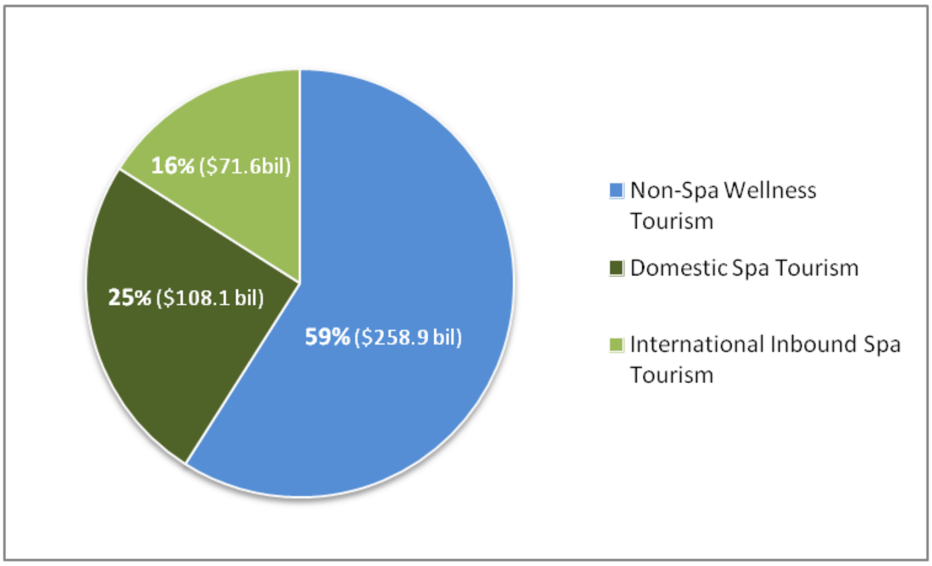
It is necessary to mention at the beginning of this subchapter that a significant portion of spa expenditures are due to medical tourism and not wellness tourism. However, it is very difficult to estimate the exact percentage of money spent on each as most spas don't distinguish where the money comes from and if they do, they don't always make the statistics publicly available. A study done by Global Spa Summit[12] confirms this by stating that statistical data on medical and wellness tourism are practically nonexistent and that it is difficult to obtain data across countries and regions that are possible to compare (GSS, 2011). This is a common problem of almost every niche tourism market as countries and organizations mostly collect data on tourism in general. The Global Wellness Institute, which is considered to be the leading research source for global spa and wellness industry, conducted a report in 2014 focusing on Global Spa Statistics which provide a clear overview of the industry. The data are also comparable as they are done with the same methodology (GWI, 2014).

Spas are undoubtedly a big part of the wellness industry. A survey conducted by Global Spa Summit showed that 43% of respondents associated wellness tourism with visiting a spa (GSS, 2011). The market continues to remain a core element of the wellness industry and accounts for a significant share of the wellness tourism economy. To be precise, spa tourism industry takes a 41% share of the wellness

[12] Wellness Tourism and Medical Tourism: Where Do Spas Fit?

tourism market (SRI, 2015). The spa industry market is valued at $179.7 billion with approximately 225 million trips made annually domestically and internationally. The expenditures in the market grew 11.1% annually between 2007 and 2012 (GWI, 2015).

Chart 11: Spa tourism expenditures within the wellness industry (2012)



Source: (SRI International, 2015)

Although it is without a doubt that spas are a significant part of the growing wellness tourism, they play an important role in medical tourism as well which should not be overlooked. GSS suggests that a discussion is needed to identify the most appropriate use of spas in pre and post medical procedures as well as in rehabilitation or recuperation. Despite wellness tourism overcoming medical tourism in its size, medical tourism data remains more available than wellness tourism data especially at the country level. Furthermore, it can be difficult to identify the true wellness and medical tourists as opposed to incidental visitors to medical- and wellness-related facilities (Global Spa Summit, 2011).

3.2 Global overview of the spa industry and the top countries

The SRI international and GSWS established a methodology that estimates the size of the global spa industry by defining spas as establishments promoting wellness through the provision of therapeutic and other professional services aimed at renewing the body, mind and spirit. Additionally to spas themselves, several related businesses such as spa education, events, investment or consulting are included in these calculations. The global spa industry is estimated to be $94 billion in 2013, recording a significant increase over estimates in 2007 at $60 billion. The facility operations themselves account for approximately 80% of the industry which earned a total of $74.1 billion in 2013. Clearly being the core of the spa industry, the spa facilities offer a wide range of services (e.g. massages, body treatments, salon services, health assessments etc.). Spa capital investments represent the second most important asset to the spa industry being estimated at $18.7 billion in 2013. This includes expenditures on the construction and finishing of spa facilities as well as large expansions of the existing spas or upgrades. The rest consists of spa education, media, association, events and consulting which all combined is estimated at only about $1.1 billion (Yeung, 2014).

105,591 spas have shared the $74 billion revenues as shown in Chart 12 below. Day/Club spas account for over half of the total number of the spa facilities with a revenue share of 41%. The offer services by trained professionals mostly on a day-use basis. Hotel/Resort spas represent the second largest spa group with a little over 30% share. These spas are located within the hotel or resort property, sometimes also available to outside guests. This type of spa accounted for the highest growth between 2007 and 2013 increasing its overall value by over 76% during this time period. On the other hand, medical spas have hardly shown any growth over the same timeframe (Yeung, 2014).

Chart 12: Global spa facilities by type

	Number of Spas		Revenues ($ Billions)	
	2007	2013	2007	2013
Day/Club/Salon spas	45,113	59,339	$21.0	$30.5
Hotel/Resort spas	11,489	22,076	$12.6	$22.2
Destination Spas & Health Resorts	1,485	2,204	$6.2	$8.4
Medical spas	4,274	5,009	$4.6	$5.4
Thermal/Mineral Spring spas	N/A[13]	6,504	N/A[13]	$4.8
Other spas	9,311	10,459	$2.4	$2.7
Total Spa Industry	**71,672**	**105,591**	**$46.8**	**$74.1**

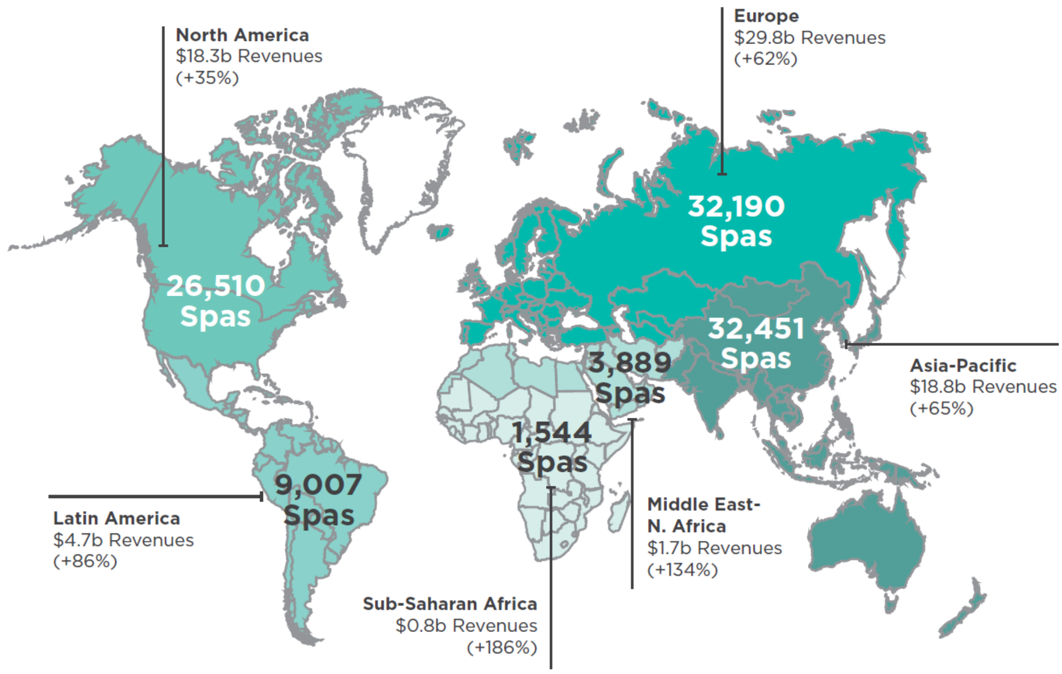
Source: (SRI International, 2014)

[13] Thermal/Mineral Spring Spas were not included as a separate category in 2007. Instead they were group under the Other Spas and Destination Spas & Health Resorts categories

In 2013, there were 105,591 spas in the world employing 1.9 million people which includes about 1.1 million spa therapists and 200,000 spa managers and directors. Global Wellness Institute predicts that if the spa industry continues growing at the same rate as it did from 2007-2013, there will be around 2.7 million people employed in this sector in 2018. Additional half million trained spa therapists and 80,000 spa managers or directors will be required in this industry (Yeung, 2014).

The spas are scattered across 203 countries with its largest presence in Asia-Pacific and Europe[14], followed by North America. These regions combine in total for 86% of the world's spas. Asia-Pacific showed the biggest growth of all regions between 2007 in terms of the total number of spas (21,566 to 32,451) as well as in total revenues ($11.4 bn. in 2007 to $18.8 in 2013). Europe remains number one region in terms of revenues. Sub-Saharan Africa continues to be an underdeveloped spa region despite accounting for the largest percentage growth of all regions (+186% for total of $800 million in revenues in 2013). Middle East-North Africa, the second smallest spa region, also managed to more than double its revenues since 2007 (SRI International, 2014).

Chart 13: Global distribution of spas (2013)



Source: (SRI International, 2014)

14 It is important to note that countries such as Russia, Kazakhstan, Turkmenistan or Uzbekistan are included in European region in this report.

Among the world's top ten largest spa-going countries in terms of revenues, all are located in one of the three top regions. United States leads significantly in terms of revenues before Germany, Japan, China and France. These top five countries account for 49% of the revenues worldwide. Russia managed to enter the top ten markets in 2013 and China the top five in terms of revenue. Although China was fourth in spa revenues in 2013, it placed second in both the number of spas and employment (Yeung, 2014). ISPA conducted a study in 2008 among eleven major spa countries and found out that Singapore has the highest percentage of people actively going to spas (68% of the population[15]) followed by Austria (42%) and Italy (39%). The highest percentage of non-spa-goers in a country was recorded in France where 78% of the people in the survey answered that they have never been to a spa (ISPA, 2008).

Chart 14: Top ten spa markets (2013)

		Number of Spas	Employment	Revenues ($ Billions)	Rank in 2013 (2007 rank)
1	**United States**	22,852	354,610	$16.25	1 (1)
2	**Germany**	5,575	126,481	$5.97	2 (3)
3	**Japan**	6,958	113,397	$5.95	3 (2)
4	**China**	9,452	225,341	$4.70	4 (7)
5	**France**	3,556	70,232	$3.12	5 (4)
6	**Russia**	2,728	101,373	$2.91	6 (13)
7	**Italy**	2,679	61,398	$2.76	7 (5)
8	**United Kingdom**	2,964	52,908	$2.51	8 (6)
9	**Spain**	2,432	45,381	$2.14	9 (8)
10	**Canada**	3,658	42,771	$2.04	10 (9)

Source: (SRI International, 2014)

The economic impact of the spa industry includes the direct revenues and employment generated by the spa facilities and other spa-related sectors. As seen in chart 15, the $94 billion spa industry managed to generate the total economic impact of $277.1 billion in 2013 which included the direct indirect as well as induced economic impacts[16] of the spa industry activities (Yeung, 2014).

[15] Additional 16% being inactive spa-goers and 17% non-spa-goers
[16] Indirect & induced impacts are explained on page 8

Chart 15: Economic impacts of the spa industry (2013)

	Spa Industry Direct Impact	Indirect & Induced Impacts	Spa Industry Economy-Wide Impact
Spa Industry Revenues	$94.0 billion	$183.1 →	$277.1 billion
Employment	1.9 million jobs	3.1 million jobs →	5.0 million jobs

Source: (SRI International, 2014)

3.3 Spas in Europe

Spas industry in Europe has a long tradition and presents a well-developed market which currently ranks number one in spa revenues and spa employment globally according to GWI (GWI, 2014). There was a boom of the hotel day spa in the 1980s especially in the United States but also in Europe. Trying to gain a competitive advantage, many hotel chains were investing a lot into various amenities. First of all, health clubs were created which was soon followed by opening spas of their own seeing the success the day spas. In the 1990s, European spas underwent a change as government support decreased due to financial strains. Up until this period, most European citizens could obtain financial support to visit spas. Various expenses were reimbursed based on an income. Due to the reduction in support, European spas had to undergo another change and focus more on wellness, nutrition and meditation just like some of the American destination spas. Moreover, there was an expansion of spa into locations such as ski resorts or the seaside (Cohen, 2008).

Though Europe managed to add over 9,500 spas since 2007, it is now the second largest market behind Asia concerning the total number of spas. The market revenues combined managed to grow by 8.4% annually since 2007 reaching $29.8 billion in 2013. Chart 10 shows the leading spa markets in Europe with Germany being the top European spa country concerning all three indicators – number of spas, employment and revenues (GWI, 2014). It is important to note that while GWI claims that there are over 32000[17] spas in Europe, European Spas Association (ESPA) mentions that there are only more than 1400 spas and health resorts in this region (ESPA, 2016). This is due to a different methodology used in these two organizations. The Global Wellness Institute's studies estimate the economic impact of establishments that consider themselves as "spa" as well as establishments that

[17] As found in Chart 13

consumers would likely consider to be a “spa” regardless of other strict definitions used by the industry in other contexts (McGroarty, 2016).

Chart 16: Top 10 spa markets in Europe (2013)

		Number of Spas	Employment	Revenues ($ Millions)
1	**Germany**	5,575	126,481	5,973.8
2	**France**	3,556	70,232	3,117.6
3	**Russia**	2,728	101,373	2,909.1
4	**Italy**	2,679	61,398	2,756.0
5	**United Kingdom**	2,964	52,908	2,512.0
6	**Spain**	2,432	45,381	2,144.0
7	**Austria**	1,200	29,507	1,648.9
8	**Switzerland**	687	17,925	1,138.6
9	**Poland**	979	17,460	719.0
10	**Netherlands**	707	11,690	606.1

Source: (SRI International, 2014)

The most apparent growth was attributed to Russia which managed to add more than 1000 spas and nearly quadruple spa revenues since 2007. This was driven by an increasing number of middle and upper-income population which demands more spa and wellness not only in their domestic market but also looks to take spa-related trips abroad. Although the European market experienced a general economic slowdown between 2007 and 2013, even the Western European[18] spa markets managed to grow healthily with day spas being a particularly strong segment. Furthermore, there has been some significant restructuring and remodeling of the traditional Kur spa which involves various curative, rehabilitative and preventive therapies. Some of the settings changed to adjust to the modern wellness tourism market (GWI, 2015).

3.4 Thermal/mineral springs industry

What is now considered the modern spas experience, has been derived from old traditions of bathing in thermal and mineral waters all over the world. In the recent years, there have been increasing efforts to invest into modernization of facilities around thermal/mineral springs. Thermal and mineral springs are used for various

[18] Countries of EU 15 + Switzerland

reasons: geothermal energy, drinking water, recreating and bathing, wellness as well as spiritual practices (Yeung, 2014).

Global Wellness Institute divides the global thermal/mineral springs industry into two categories – establishment offering spa services and establishment with no spa services (businesses offering typically only thermal water bathing including no health resorts or waters for treatment, e.g. thermal pools in Latin America). The market of thermal/mineral springs establishments with spa services reached $32 billion and the total revenues of the industry were estimated to be just above $50 billion (Yeung, 2014).

Chart 17: Top 10 thermal/mineral springs markets (2013)

		Number of Establishments	Revenues ($ Millions)
1	**China**	2160	$14,078.3
2	**Japan**	17653	$11,687.0
3	**Germany**	1265	$7,520.0
4	**Russia**	776	$3,688.5
5	**Italy**	756	$1,742.7
6	**Austria**	124	$928.8
7	**Turkey**	196	$862.8
8	**Hungary**	531	$691.3
9	**Czech Republic**	84	$686.4
10	**Spain**	165	$672.0

Source: (SRI International, 2014)

Japan which has over 13000 onsens with lodging and almost 4000 day-visit onsens accounts for about two-thirds of the world's thermal/mineral spring establishments. Despite such high numbers, China's springs managed to generate more revenues and rank as number one market globally with revenues of approximately $14 billion. 200 additional hot spring resorts are expected to be opened in China within the next several years. Chart 17 shows the top 10 markets which in total account for 85% of total global revenues. European countries are oldest markets for thermal/mineral springs and continue to be one of the most developed. The Czech Republic ranks number 9 globally with $686 million yearly revenues. It is interesting to note that Czech Republic's revenues from Thermal/Mineral spring are almost identical with the Hungary although there are only 84 establishments compared to 532 in Hungary

(GWI, 2014). This is contributed to the size of the spas that are smaller in Hungary on average, thus earning less per establishment.

3.5 Current spa trends

Nearly every spa segment has been successfully growing in the new millennium. The only relatively stagnant spa category was the destination spa due to consumers' preference to take shorter spa vacations rather than going away for a week or more (Cohen, 2008). There were several trends which helped the industry booming. One example could be men who started being more conscious of health issues and became more willing to maintain a youthful appearance (Gibbons, 2014). Furthermore, the internet helped spreading the benefits of spa internationally making the industry popular in more regions. Nowadays, even small spas are able to attract distant customers and offer online booking. With rising middle class in China, Russia or India and their steadily increasing spending power, spa industry looks to make a further footmark in the emerging markets (Cohen, 2008).

Moreover, people are more concerned about environmental changes, green and sustainable issues which resulted in the development of the eco-spas. Consumers now demand eco-friendly facilities and spas in natural locations are becoming increasingly appealing. As far as social trends and aging population is concerned, more people make an effort to keep fit and stay youthful as long as possible. Therefore, health and various beauty treatments will become even more appealing to the aging, urban population. It is also important to note that healthcare costs are on the rise worldwide which makes more people to take preventive measures which can consequently increase the attractiveness of spas (Cohen, 2008). The Spa Association (SPAA) came with their own report in 2014 highlighting the most important trends in the industry. In one section focused on the high tech, the author mentions the upcoming era of wearable technology and the self-tracking technology which should help with monitoring data about sleep, diet or behaviour change in between spa visits (Minton, 2014).

As we look more into the future, Spa Balance Consulting highlights the most important business spa trends. Among others, the report mentions even further spa specialisation, the need for tighter relations between investors and spa operators and more spa managers being specialists in the field (Uberoi, 2014). The areas of possible areas of specialization are identified in a report by Spafinder Wellness 365 where the authors refer to areas such as “forest bathing”, traditions coming from the Islamic world or the use of cannabis in the spa industry. Although these specialization trends were picked for 2015, the authors don’t expect a major change in the later coming years (Spafinder Wellness 365, 2015).

Despite the positively looking future for the spa industry, there may appear some rather troubling trends. The expansion of the industry and the excessive building of new spas may result in oversupply in some regions which may result in high pressure sales techniques that may conflict the basic idea of spas. Furthermore, large brands focusing solely on making profit may suppress the “soul” and the appeal of the spa experience which would present another negative result of globalization (Cohen, 2008). Additionally, the migration crisis in Europe has been damaging tourism in several regions, especially in Greece which is one of the top twenty wellness tourism countries in the world. Because of this issue, the Greek government launched a campaign on social media platforms assuring travelers that the islands are safe and calm. Despite some possible threats, the global spa industry’s future looks bright. Research and Markets announced in their latest forecast edition that the industry is expected to grow at a CAGR of 8.7% during the period 2016-2020 (Research and Markets, 2016).

4 Characteristics of the Czech Republic

In this chapter, the most essential information about the Czech Republic will be presented which is required for a further analysis of the spa industry in the country. First of all, fundamental data of the country will be listed followed by an overview of the current economic situation. In addition, tourism data will be examined along with the competitiveness of the industry.

4.1 General characteristics

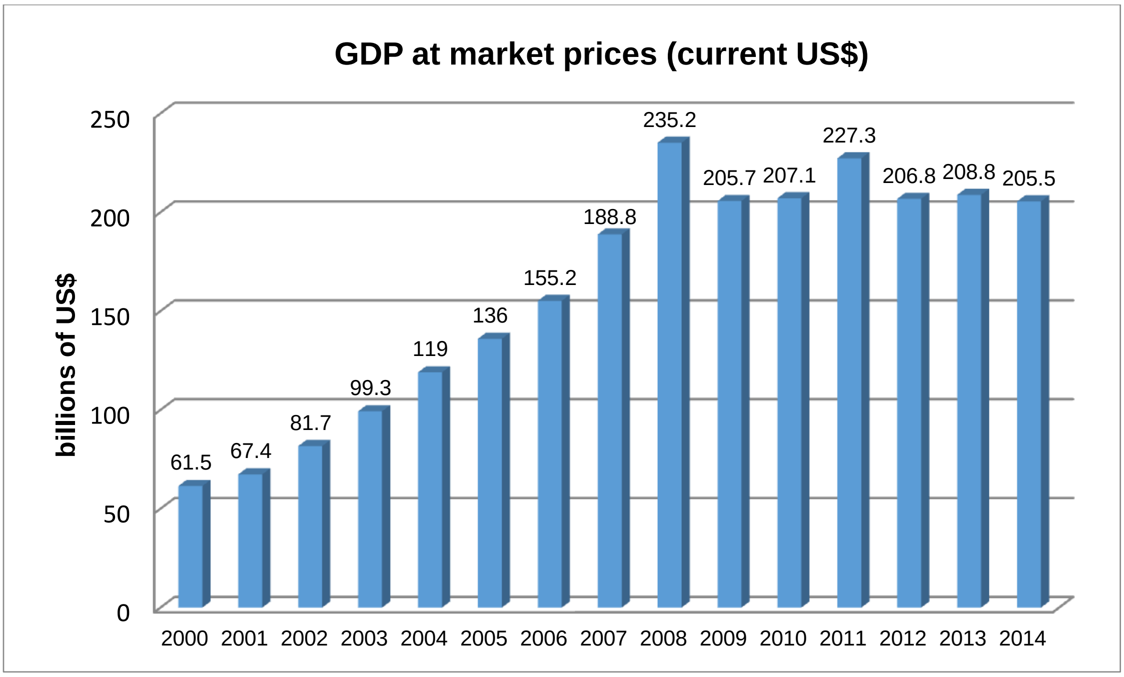
The Czech Republic is a country located in Central Europe which borders with Germany to the west, Poland to the northeast, Slovakia to the east and Austria to the south. The country covers an area of 78,866 km^2 which consists of three main regions – Bohemia (large western part), Moravia (east) and Silesia (northeast). Administratively, the Czech Republic is divided into fourteen regions, each of them having its own elected regional assembly. The country has a population of approximately 10.5 million. Prague is the capital of the country as well as the largest city with over 1.2 million residents. Almost 75% of the entire Czech population lives in urban areas. The life expectancy in the Czech Republic is 78.3 years which is just below OECD average of 79.9 years (OECD, 2015).

The Czech Republic joined the European Union (EU) on May 1, 2004. Despite being a member of the EU, the country hasn't accepted the Euro yet and the Czech Crown (Koruna) remains the currency in use. The date for accepting the Euro still hasn't been set. Moreover, the Czech Republic joined the NATO in 1999, is a member of Organisation for Economic Co-operation and Development (OECD), United Nations, Council of Europe. The strong political ties of the country with Slovakia, Poland and Hungary resulted in forming of the Visegrád Group in 1991.

4.2 Economic characteristics

The Czech Republic is a highly developed country high income OECD country that has become the most prosperous of the post-communist European countries. The major industries are automotive industry, high-tech mechanical engineering, ferrous metallurgy and coal. In 2015, the GDP per capita reached $31,549 putting Czech Republic to 37th place on a global list (IMF, 2015).

Chart 18: GDP development in the Czech Republic ($ billions)



Source: own illustration, data from (World Bank, 2016)

Chart 18 illustrates the overall development of Gross Domestic Product (GDP) in the country since 2000. Between the year 2000 and 2008 we can observe a steady increase in the GDP with the absolute value being nearly quadrupled during this period. The global financial crisis significantly hit Czech Republic in 2009 and the country has not yet fully recovered. However, the economy of the Czech Republic recorded the fastest growth of all members of the EU in the first quarter of 2015. The GDP increased by 2.8% from the last three quarters of 2014 (Ponikelska, 2015). According to the European Commission (EC), the current economic forecast for the Czech Republic looks rather bright predicting a GDP growth of 4.5% in 2015, 2.3% in 2016 and 2.7% in 2017 (EC, 2016).

The trade balance has been strictly positive since 2010 recording a trade surplus[19] every single quarter (Trading Economics, 2016). The major trade partner of the Czech Republic is Germany with 32% share of exports and 26.1% of imports in 2015. China recently became second most important importing partner with 11.3% share and is followed by Poland (7.8%) and Slovakia (5.3%). Besides Germany, Czech Republic exports the most to Slovakia (8.4%), Poland (6.0%) and France

[19] Exports higher than imports

(5.1%). Nearly 75% of the total trade turnover is done with the European Union (Ministry of Industry and Trade of the Czech Republic, 2016).

Concerning competitiveness, the Czech Republic placed 31th out of 144 countries in the Global Competitiveness Report[20] (2015-16) that is published yearly by the World Economic Forum (WEF). The most problematic areas for doing business include inefficient government bureaucracy and corruption. On the other hand, there are almost no issues with inflation, poor public health or a crime (WEF, 2015). In a Doing Business 2016 report published by the World Bank Group Czech Republic placed 36th out of 189 countries. The report mainly criticizes the procedure of paying taxes in the country (WB, 2016). Furthermore, the Global Manufacturing Competitiveness Ranking developed by Deloitte placed Czech Republic 22nd worldwide with expectations to be in the top twenty by 2020 (Deloitte, 2015). Additionally, Czech Republic has a very high Human Development Index (HDI)[21] being placed 28th out of 188 countries in 2015 (UNPD, 2015).

4.3 Tourism in the Czech Republic

As almost every industry in the Czech Republic, the international tourism has been experiencing significant growth after the Velvet revolution[22]. People could finally travel freely to and from the country and the economic and political changes contributed to the eventual growth of the industry. Thanks to new investments and increasing number of operating subjects such as travel agencies in the sector, the trend continued after the split of Czechoslovakia in 1993 making the Czech Republic one of the major tourist destinations in Europe.

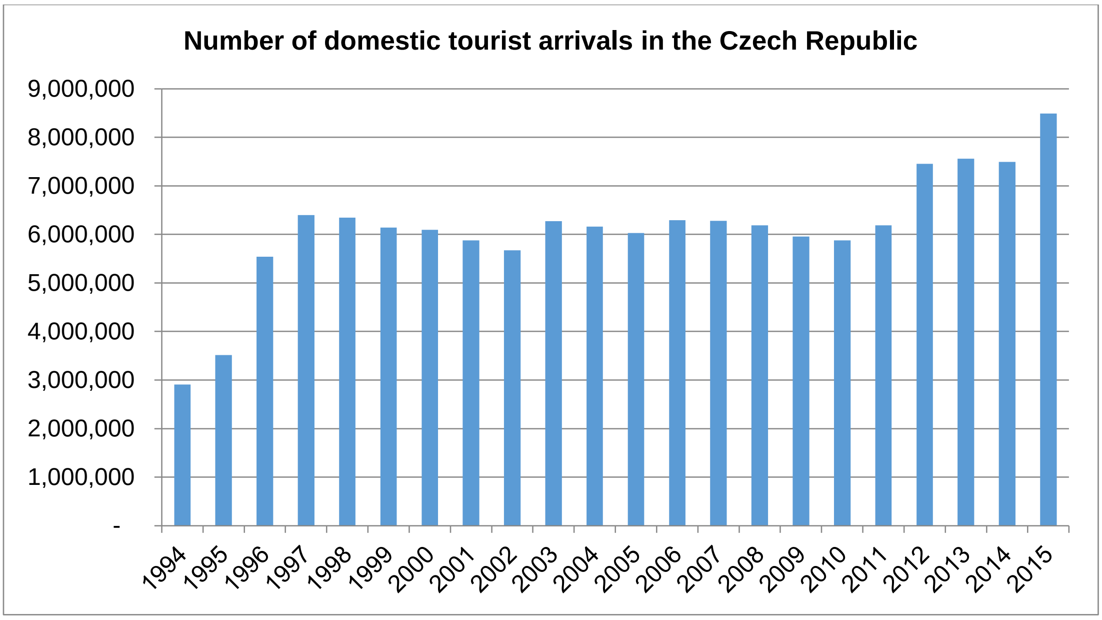
4.3.1 The development of domestic and international tourism

The domestic tourism didn't grow as significantly as international tourism in the past twenty years due to the fact that it had already been an established market before 1989 to some extent. Although the Czech Republic was facing economic problems due to the market transformation in the 1990s, the purchasing power of citizens was increasing. With the new investments into the tourism sector, the domestic tourism was booming in the mid 1990s. There was stagnation in the number of domestic tourism arrivals which can be contributed to further increasing purchasing power

[20] This report assesses the ability of countries to provide high levels of prosperity to their citizens
[21] HDI combines the statistics of life expectancy, education and income per capita
[22] The end of the communist ruling, the conversion to a parliamentary republic in 1989 (still being a part of Czechoslovakia). Less than four years later in 1993, Czechoslovakia split to Czech Republic and Slovakia

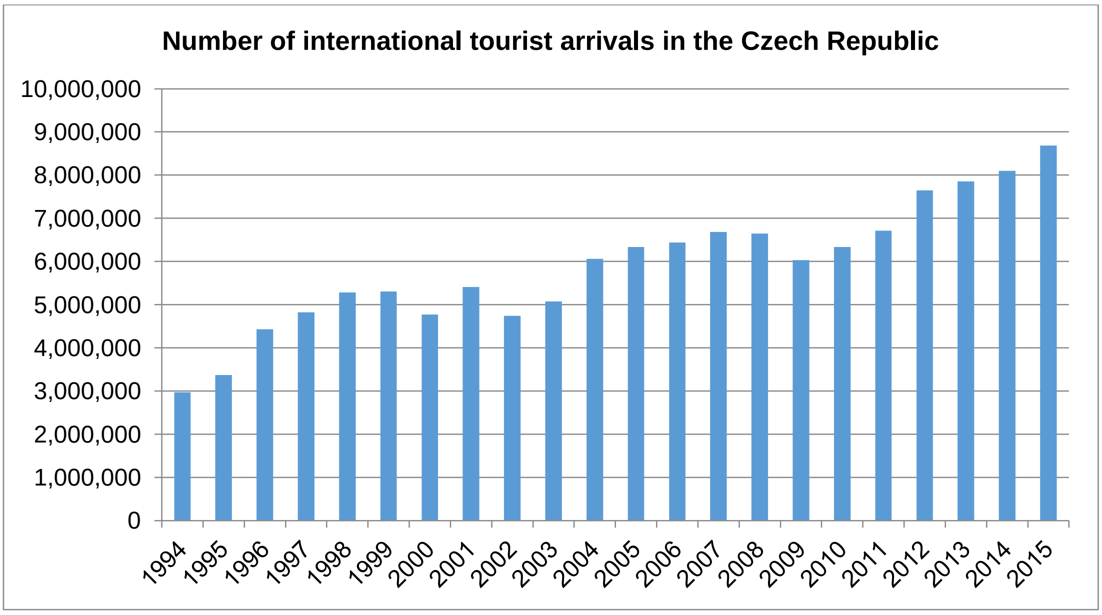
allowing more and more people to travel abroad. However, domestic tourism in the country seemed to experience a revival in 2012 with over one million additional arrivals. As of 2015, nearly 8.5 million residents take vacation in the Czech Republic every year.

Chart 19: The development of domestic tourism in the Czech Republic



Source: own illustration, data from (Czech Statistical Office, 2016)

Chart 20: The development of international tourism arrivals in the Czech Republic



Source: own illustration, data from (Czech Statistical Office, 2016)

Chart 20 illustrates the development of international inbound tourism in the Czech Republic over the past twenty years. It can be seen that the number of international arrivals has shown a rather steady growth during this period. The number of international tourists increased from under 3 million in 1994 to 8.7 million in 2015 making Czech Republic one of the popular destinations in Europe. There were two main growth waves of the international inbound tourism. First happened between 1994 and 1998 when the total tourism expenditures rose 22.4% annually. Although it is important to note that the prices goods and services were also increasing during this period (by 8.3% annually), it is still clear that tourism expenditures skyrocketed during this period not just in nominal but also in real prices. The second strong period happened between 2003 and 2007 when the Czech Koruna was strongly appreciating especially in comparison with the US dollar (Czech Statistical Office, 2014/2016).

According to Czech Statistical Office, most visitors came from Germany in 2015 (1.75 million), followed by Slovakia (564,000), United States (507,000), United Kingdom (441,000) and Russia (433,000). Although Russian tourists were the second strongest group in 2014, their number dropped dramatically in 2015 due to the devaluation of the Ruble. Moreover, there has been an increase in the number of tourists coming in from China (285,000) which is currently the largest tourism source market in the world (Czech Statistical Office, 2016). Further rise is expected to continue especially with China Eastern Airlines launching their new direct service from Shanghai to Prague in June 2016 in addition to an already established Prague-Beijing direct flight operated by Hainan Airlines (Elliott, 2016).

4.3.2 The economic impact of tourism

According to the report by World Travel & Tourism Council (WTTC), travel and tourism made a 2.6% direct contribution and 8% total contribution to GDP in the Czech Republic as of 2014. This is below Europe's average (3.1% direct, 9.2% total). Furthermore, 242 000 jobs were created directly through tourism and the total capital investment in the sector reached $2.1 billion. Foreigners continue to contribute more to the GDP as they accounted for 60.6% of the overall travel spending[23]. Leisure travel spending generated 81% (CZK 206.9bn[24]) of the direct tourism expenditures compared to 19% business travel spending (WTTC, 2015).

[23] Domestic spending accounts for the remaining 39.4%

The growth rates of contribution to GDP and contribution to employment were both above European average in 2015. In 2025, Czech Republic is expected to reach 3% direct contribution to GDP and 5.8% direct contribution to employment (up from 4.8% in 2015) which is estimated at 294 000 jobs. In addition, the capital investment in the sector is predicted to grow by 3% annually between 2015 and 2025 reaching $2.85bn in 2025 (WTTC, 2015).

4.3.3 The competitiveness of tourism

The World Economic Forum (WEF) prepares a Travel & Tourism Competitiveness Report every year featuring Travel & Tourism Competitiveness Index (TTCI) which measures several factors that contribute to the overall development of the travel and tourism in the country. It consists of 90 individual indicators across four main pillars. In 2015, Spain is placed number one ahead of France and Germany. Czech Republic placed 37th out of 141 countries examined in the report but number two of Eastern European[25] countries four spots behind Croatia and one spot ahead of Estonia. Health & hygiene, safety & security, and tourist service Infrastructure are rated very well while natural resources in the country are rather poor (WEF, 2015).

As far as safety goes, Czech Republic ranks very well in the Global Peace Index (GPI) which measures the relative position of nation' peacefulness. The Czech Republic placed 10th on the global list (Institute for Economics & Peace, 2015). Crime rates have always been low in the Czech Republic and continue being on a decreasing trend. Same goes for terrorism which currently holds a very little threat to the country (CzechTourism, 2014).

[24] = $US8.75bn as of 30/4/2016
[25] Eastern European – as defined by EuroVoc

Chart 21: SWOT analysis of tourism in the Czech Republic

Strengths	Weaknesses
- Thematically rich tourism supply - High satisfaction with spending holidays in the Czech Republic - Safe destination - Growing interest from new source markets such as Russia or China - Czech spa tradition - Geographical position	- Seasonality of the tourism supply offer - Shorter length of stay by all tourists - Poor service quality (especially in comparison with Western European countries) - Overwhelming focus on Prague - Eco-friendly tourism is lacking
Opportunities	**Threats**
- Taking advantage of new trends in tourism - Improving services which will result in higher customer satisfaction - Further development of IT technologies in the sector - Emerging phenomena such as wellness	- Deterioration of the image and brand of the Czech Republic - Worsening of a relative quality in comparison to the neighboring countries - Possibility of another financial crisis which significantly hit tourism industry in the past

Source: (Ministry of Industry and Trade of the Czech Republic, 2014)

Chart 21 shows the SWOT analysis of the tourism in the Czech Republic. Although the country can take advantage of number of positive strengths, it should be aware of its weaknesses and possible threats. Despite improved service quality in the past years, it still presents a major weakness that especially foreign tourists like to complain about. It can be seen that spa tradition is included in the strengths of the tourism industry in the country as well as the opportunity of wellness becoming a new phenomenon. Czech Republic offers a variety of tourism opportunities to the visitors which range from historical cities to national parks. It is known as a safe destination with low crime rates. Its geographical position in the center of Europe is very favorable as it makes the country accessible. Major problem is the seasonality of tourism supply as there are about twice as many visitors in Q3 of the year as there are in Q1 (CZSO, 2016). Furthermore, the advertisement seems overly focused on Prague and many visitors do not even consider other places to visit. As for the future, the Czech Republic should primarily take an advantage of the new tourism trends and make sure the quality of services does not fall behind far behind the neighboring countries as it could potentially harm the good image of the Czech Republic.

5 The spa industry in the Czech Republic

Spas are well established industry in the Czech Republic and have a long-standing tradition. There are tens of spa towns scattered around the country, some of which are known worldwide. Perhaps the most famous are three spas located in the western part of Bohemia (Karlovy Vary - Carlsbad, Mariánské Lázně (Marienbad), and Františkovy Lázně). The largest and most known spa town in the Moravian region is Luhačovice.

5.1 The history of spa in the Czech Republic

The history of spa in the country dates back to the beginnings of the 15th century when people started to realize the healing effects of mineral springs which are to be found all around the country, especially near the border. New towns were being built around these springs which began to appeal even to famous foreign clientele such as Tsar Peter the Great or the British King Eduard VII (Drbohlávková, 2013).

Spa industry experienced its most extensive development towards the end of 18th century which was connected to the science and technology development during this time period. There were new large spa building and colonnades being built and the attention was aimed at the quality of natural sources (Jakešová, 2010). The spa towns soon became cultural centers as construction of new theaters or galleries began and various new social events were organized. There has been always some prestige connected with visiting the spas and originally could be afforded almost exclusively only by clients from the higher circles in society. This began to change after the World War I when former Czechoslovakia became independent and was one of the strongest economies in the world. New social and health companies emerged which resulted in more people being able to afford spa care.

During the WWII, most spa facilities were taken over by the Germans for military purposes and it took several years for them to be renovated. Furthermore, there were efforts to maximize the spa capacities. In 1948, a new law went into power No. 125/1948 Coll., which effectively meant nationalization of all the healing springs and spas. Moreover, the priority was soon shifted towards spas being rather a medical facility. The demand for spas was growing in the 70s and 80s and was about 30% stronger than supply. Many spas were overloaded and not being invested into. The requirement for managers at that time was to have a “MUDr.[26]” title which resulted in many spas being managed ineffectively (Knop, 1999).

After the fall of communism in 1989, the economic transformation process (privatization) began in spa industry as well. Spas started to be perceived differently. Hotel, catering, cultural, social and sport services along with the typical spa service should have contributed to the overall spa experience. The problem was poor conditions of most spa facilities around the country. Spas were unkempt, dirty and the spa accommodations offered only the lowest comfort with outdated equipment. Despite all the negatives, at least the there were very qualified doctors and medical workers employed by the spas (Knop, 1999). Furthermore, the transformation of spas since the 1990s and the quality improvement seems to be successful which is supported by the increasing number of visitors, especially from abroad. The spa industry is currently undergoing an extensive development and the interest is growing not only from the business point of view but also from towns and regions.

5.2 Legislation

The social security system in the Czech Republic considers therapeutic spas to be part of health care – curative as well as preventive which is partly or fully paid from public sources (mandatory health insurance). Because of several budgetary problems and the aim to lower public expenditures in the health care system, there was established at least a small mandatory fee of 60CZK per person per day during a treatment in spas.

The provision of spa care is governed by the following legal norms: The law of public health insurance No. 48/1997 Coll., the regulation of Ministry of Health No. 58/1997 Coll. and the spa law No. 164/2001 Coll. On January 6 2015, a new law about public health insurance has passed which also covers new indication list for spa care.

If there is a need for spa care due to the patient’s condition, the doctor submits a proposal to patient’s health insurance company. Depending on the current health condition and the severity of the disease, the therapy will be based on No. 48/1997 Coll. either:

- *Comprehensive - KLP* (therapy, accommodation and catering all covered by the insurance company)

[26] Medicinae Universae Doctor

- *Contributory - PLP* (therapy is covered by the insurance company; everything else is paid by the patient)
- *private patient, private payer* (all expenses are covered by the patient)

As of 2013, out of 367,371 patients 44.7% were foreigners paying out-of-pocket, 37.9% self-paying Czech residents, 14.0% covered by KLP and 3.4% covered by PLP. The share of people coming to spas being covered at cost of health insurance changed a lot over the years as there were 41.9% of patients covered by KLP and 9.7% by PLP in the year 2000[27] (IHIS, 2016).

The regulation of the Ministry of Health No. 58/1997 Coll. defines eleven groups of diseases which can be treated by spa treatment. Furthermore, it specifies the length of the treatment (21-28 days by adults; up to 42 days by children), type of treatment (comprehensive, contributory), spa resort and contraindications (conditions when spa treatment should not be applied). Additionally, the law No. 164/2001 Coll. defines mostly the conditions for the development and existence of spa resorts, the concept of natural medicinal resources and specifies the term spa institution.

5.3 Organizations involved in the spa industry

For the right development of the spa industry, there is a need for state authorities supervising spa activities as well as for various professional organizations whose aim is to promote the development of the spa. There are several organizations in the Czech Republic actively involved in the spa industry.

Czech Healing Spa Association

Czech Healing Spa Association (SLL) is a professional association of spa resorts and other business subjects that are present in the spa industry. This organization was founded in 1995 as an association of spa results with the aim of maintaining and guaranteeing the high healing quality of spa resorts. Currently, it consists of 44 members which account for a capacity of over 20,000 beds which equals to more than two-thirds of all spa beds in the Czech Republic. According to the articles of the association, their main goal is to develop suitable conditions for the development of spa industry and spa organizations, defend the interest of the members, to ensure

[27] Numbers are further covered in the 5.6.4 statistics chapter

protection and appropriate use of natural healing resources. Furthermore, the association also supports research in this field, provides presentation of Czech spas and represents the Czech Republic abroad (SLL, 2016).

CzechTourism

CzechTourism is an agency actively engaged in the development of tourism doing various activities which promote tourism in the Czech Republic abroad as well as domestically. CzechTourism was founded in 1993 as a contributory organization of the Ministry for Regional Development. One of the most devoted topics in the recent years is the promotion of spas. It particularly highlights the history of the Czech spas and its quality of service. Between 2005 and 2010, there was a separate team focused on spas which managed to organize 130 events promoting the Czech spa industry. Nowadays, the marketing communication department takes the responsibility of the spa industry. As far as spas are concerned, CzechTourism differentiates its activities to Medical Spas, Wellness in & out of spa and Medical Tourism (CzechTourism, 2016).

Medispa

Medispa is an interest association of legal entities which attempt to maintain a good reputation and quality spa services in the territory of the Karlovy Vary (Carlsbad) region, arguably the most important spa region in the country. It cooperates with the other accredited spa organizations that are involved in the spa care and they together focus on the protection of balneology. Medispa takes pride in supervising the quality of the spa services provided and further promotes the services (Medispa, 2016).

5.4 Significant spa places and types of treatment

Spa resorts are named by the government of the Czech Republic based on the proposal by the Ministry of Health. Prior to this, the Czech Inspectorate of Spas and Springs develops an expert appraisal. In 2013, there were 81 balneal institutes in the Czech Republic with a capacity of 24 840 beds (IHIS, 2013).

There are spa facilities in every region in the Czech Republic with the exception of Prague and Vysočina region. The most recognized large spas are located in the Karlovy Vary region (Carlsbad, Mariánské Lázně, Františkovy Lázně, Jáchymov), furthermore also Luhačovice in Zlín region, Teplice and Jeseník. These spas enjoy a large percentage of foreign visitors which means more out-of-pocket payments rather than indirect payments through insurance companies. Besides having a high-quality infrastructure for spa care, these places have a wide selection of free-time services, well-equipped business network and offer various cultural and sport activities.

Medium-sized spa places are for instance Behyně, Bohdaneč, Jánské Lázně, Karlova Studánka, Poděbrady or Třeboň. The share of foreign clientele generally does not exceed ten percent. Alongside the provision of spa treatments, these places offer the possibility of summer and winter recreation and the exploring various cultural and historical landmarks. These spas are mainly positioned towards the citizens of the Czech Republic.

Karlovy Vary (Carlsbad)

Karlovy Vary is the largest spa in the country and is primarily used for the treatment of digestive and locomotor system diseases and metabolic disorders. There are many spa hotels and other spa facilities located in the town providing variety of wellness programs along with traditional spa treatments. The spa procedures in Karlovy Vary are mainly using mineral water for treatments. The therapy is recommended to last at least three weeks. Local doctor at the spa performs the initial examination and prescribes suitable follow-up treatments (Žemlička, 2016).

The spa treatments have been offered for over 650 years in Karlovy Vary. After its modernization following the 1989 Velvet Revolution, the spa town is once again able to compete with other well-known European spa towns. Out of the 79 thermal mineral spring sources, 13 are used for drinking cures. The temperature of the springs is between 42°C and 72°C. In 2013, there were 161 000 guests coming in for spa treatments in Karlovy Vary, most of them coming from abroad (nearly 85%). The average length of stay was 10 days. The town is especially popular with the tourists coming from Russia. In total, there were 69,000 guests coming from Russia combining for 865,000 overnight stays[28] (Czech Statistical Office, 2016).

[28] Followed by Germany (20 850 guests and 147 000 overnight stays)

Mariánské Lázně (Marienbad)

Mariánské Lázně is the second largest spa town in the Czech Republic being known for its mineral springs. There are approximately 40 within the town itself and nearly 100 in a close distance around the town. The spa town is being visited also thanks to attractive surroundings consisting of many forest parks. Mariánské Lázně is known for their special treatments of kidney and urinary tract disorders. Further treatments are directed at respiratory, metabolic, gynecological and oncological disorders (Placek, 2016). In 2015, there were 38,300 guests in spa facilities in the town combining for 234,000 overnight stays. Only 18% of all guests are Czech residents (Tintěrová, 2015).

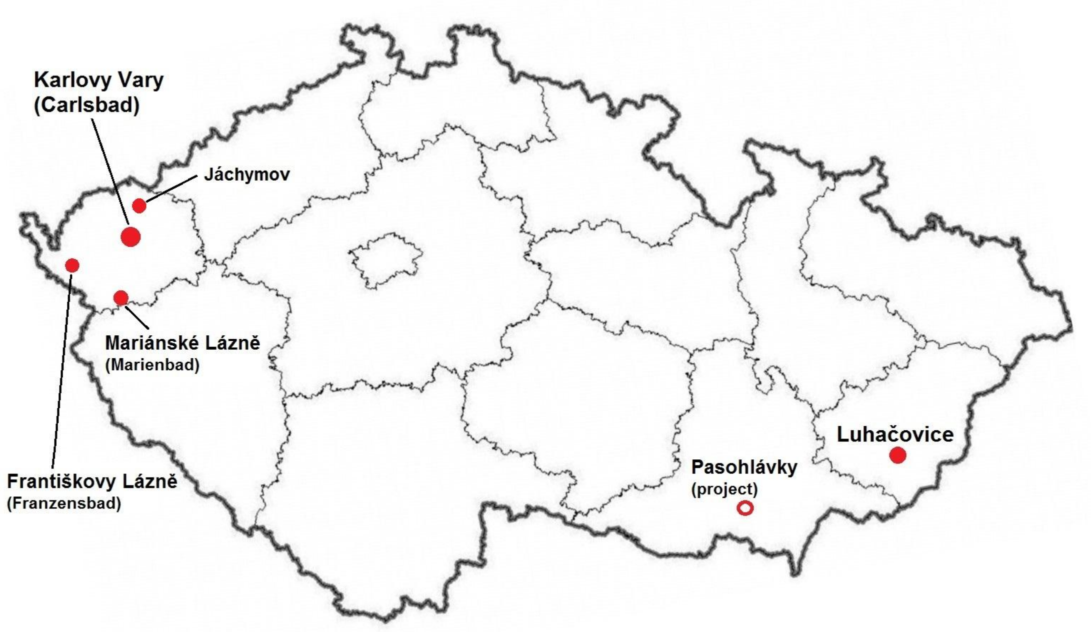
Pasohlávky (Project)

Pasohlávky is a small village in South Moravian Region. Towards the end of 2018, new large spa facility should be opened costing two billion CZK and is estimated to generate approximately 500 new jobs. The project will be financed by Chinese investors from the Che-pej province in cooperation with the South Moravian Region. These newly-built spas should be the largest greenfield spa investment in the Central European region. There should be twelve spa buildings altogether on an area of about 20 hectares. The capacity will be approximately 2000 guests. Besides traditional spa treatments, traditional Chinese medicine will be provided. The spa should be primarily focused on treating musculoskeletal system disorders (Czech News Agency, 2015).

Luhačovice as the largest spa in Moravia will be covered later in the thesis in the practical part.

Chart 22 provides a graphical illustration of the location of the most significant spa places in the Czech Republic. It is apparent that the Karlovy Vary region is the most important spa region in the country with several large spas being located close to each other. Jáchymov, a spa located also in this region, is a part of Spa & Wellness Nature Resorts, same group as Spa Luhačovice.

Chart 22: Map of the most significant spas in the Czech Republic



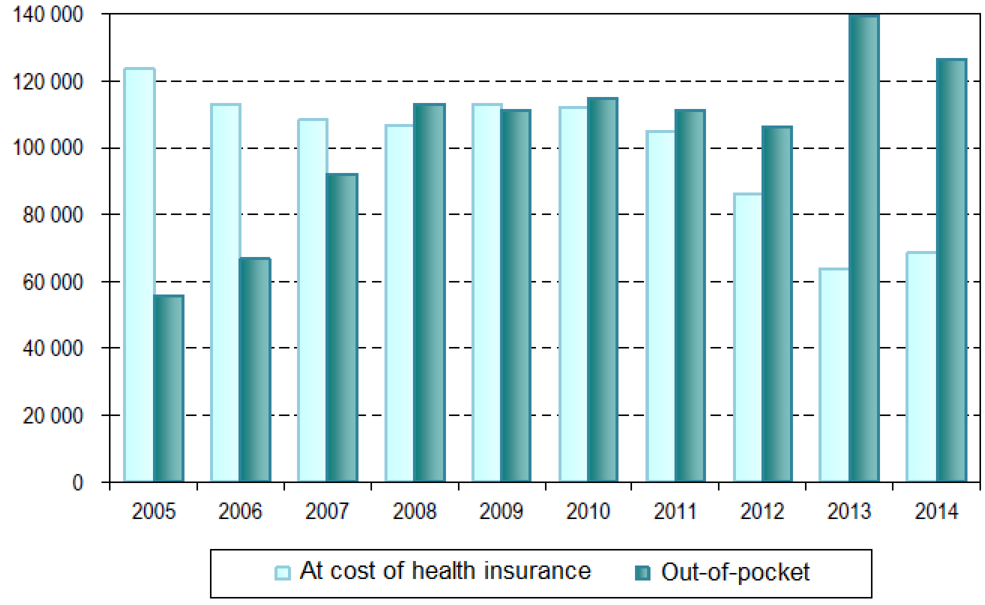
Source: own illustration

5.5 The clients

In the Czech Republic, we can differentiate clients receiving a spa rehabilitation care based on different criteria. Main differentiation would be based on the way of paying for the spa service. Secondly, we can distinguish the guests based on the characteristics of their disease and lastly based on their age.

First important group of spa visitors are patients which are sent to balneal institutes to receive the treatment by their insurance company (comprehensive or contributory care). Then there are out-of-pocket payers, either domestic or foreigners. In the 1990s, patients at cost of health insurance prevailed. Since 2001, spa or balneal institutes strive to increase the share of Czech residents that pay out of pocket and who stay generally shorter time. The strategy seemed to have worked as the number of self-payers is increasing which is also thanks to the growing offer of wellness stays by spa facilities. Chart 22 illustrates the distribution of the type of patient based on their payment method among Czech patients. Between 2005 and 2014, the number of people receiving an insurance-covered treatment has been steadily decreasing while the number of people paying out of pocket more than doubled during this period (IHIS, 2015).

Chart 23: The development of number of adult patients in spa institutions based on the payment method (only Czech residents)

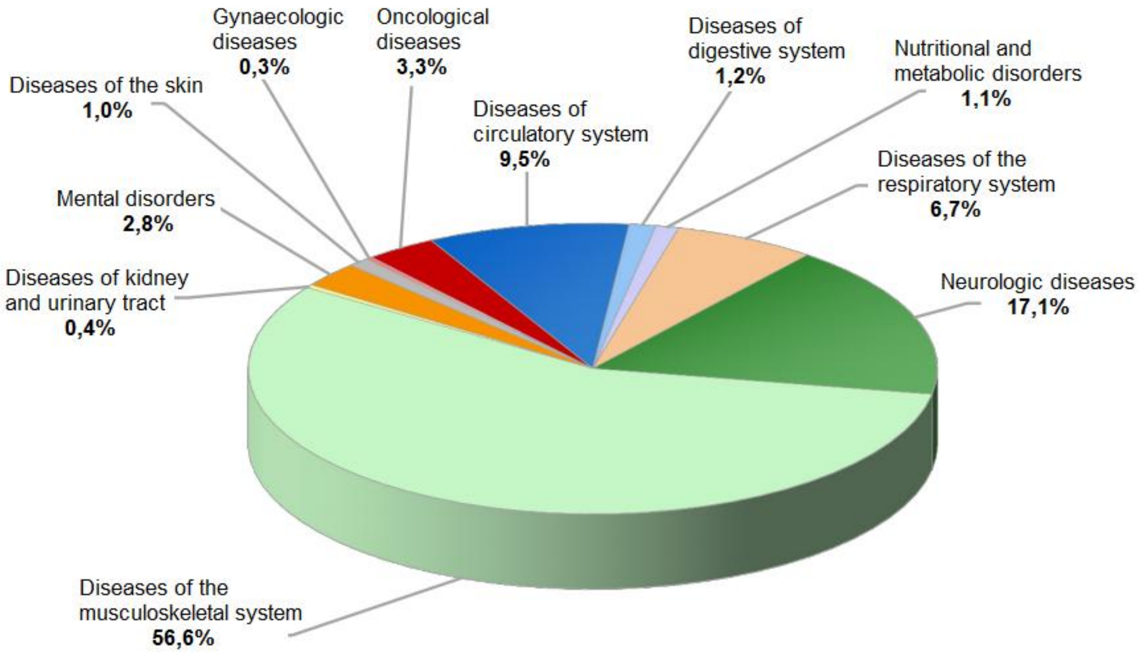


Source: (IHIS, 2015)

Out of all patients, 96.7% are adults, 0.5% adolescents and 2.8% children. Though the majority of clients are older people, the percentage of younger people receiving the treatments is increasing. Patients receiving the full comprehensive care had an average stay of 22.2 days while foreigners had an average 13-day stay and Czech self-payers 5.8 days (IHIS, 2015).

Chart 23 shows the distribution of adult patients based on the specific disorder that is being treated. Over half of all patients suffer from diseases of the musculoskeletal system, followed by 17.1% of patients with neurologic diseases, 9.5% with diseases of circulatory system and 6.7% with diseases of the respiratory system.

Chart 24: Spa treatment in 2014 for adults at the expense of health insurance



Source: (IHIS, 2015)

5.6 Spa statistics

There are two main databases of data concerning the spa industry in the Czech Republic. The first one is done by the Czech Statistical Office and the second one by the Institute of Health Information and Statistics of the Czech Republic. Both of these institutions look at spa industry in a different way and use different methodology. Therefore, it is important to distinguish between the two different approaches.

The Czech Statistical Office (CZSO) records the number of guests and overnight stays in the spa hotels within the tourism satellite account. Therefore, it records the data of both the spa patients and ordinary tourists. CZSO only distinguishes between residents and non-residents. Data is monitored in the accommodation facilities and include the total sum of treated patients as well as regular guests. It is important to note that the CZSO Register of accommodation establishments was updated in 2013 and data on for 2012/2013 were revised. However this means that newest data with the updated methodology are comparable only with 2012 data onwards. This creates two separate comparable time series: the non-revised data of 2000-2013 and newly revised data 2012-2015 (CZSO, 2016).

Institute of Health Information and Statistics of the Czech Republic (IHIS) is an organizational unit established by the Ministry of Health which collects data of all medical facilities, including spa. The obtained data are classified by age group (adults, adolescents and children), method of payment (comprehensive spa care, contributory spa care, self-paying resident patients and foreigners) and disease indicators. Data is monitored from the perspective of the treated patients.

5.6.1 Guests in spa accommodations

Chart 24 shows the occupancy in spa accommodation by guests in the four most recent years[29] in comparison with collective establishments in the country. There were 736 877 guests in spa accommodation establishments in 2015 with 56.3% being the residents of Czech Republic and 43.7% coming from abroad. The share of foreigners is higher among regular tourists which accounts for over half of the total guests (50.6%). Although the spa accommodations can be pleased with the

[29] The reason for the comparison of only 4 last years here is the new methodology used by the Czech Statistical Office

increase in total number of guests in comparison to 2012, the growth is rather small (1.2%[30] annual growth rate) and the number has actually been in decline since 2013. In contrast, tourism overall has grown by 4.4%[27] annually during the same period. Although the Czech Republic managed to attract more and more residents to spa accommodation facilities, the number of foreigners who came in 2015 is lower than 2012. What speaks in favor of the spa industry is the fact that the industry does not suffer nearly as much from the seasonality and has relatively even number of guests in all quarters throughout the year. On the other hand, the tourism overall had more than twice as many guests in Q3 than Q1 in 2015.

Chart 25: Occupancy in spa accommodation establishments in comparison with collective establishments in the Czech Republic (number of guests)[31]

		SPA			TOURISM OVERALL		
Year		Total	Non-residents	Residents	Total	Non-residents	Residents
2012		710,858	349,531	361,327	15,098,817	7,647,044	7,451,773
2013		745,935	374,744	371,191	15,407,671	7,851,865	7,555,806
2014		742,281	350,488	391,793	15,587,076	8,095,885	7,491,191
2015		736,877	321,723	415,154	17,175,487	8,686,726	8,488,761
2015	**Q1**	160,561	71,163	89,398	2,963,637	1,481,921	1,481,716
	Q2	190,048	79,572	110,476	4,437,518	2,373,650	2,063,868
	Q3	208,533	88,500	120,033	6,191,134	2,821,026	3,370,108
	Q4	177,735	82,488	95,247	3,583,198	2,010,129	1,573,069

Source: (CZSO, 2016)

Although the above mentioned numbers do not look very favorable for the spa industry, there needs to be a longer time series for analysis. The accessible comparable data are from 2000-2013[32]. The following charts show the development of the number of guests in spa facilities during this period as well as graphical illustration in form of line graph to get a better visualization.

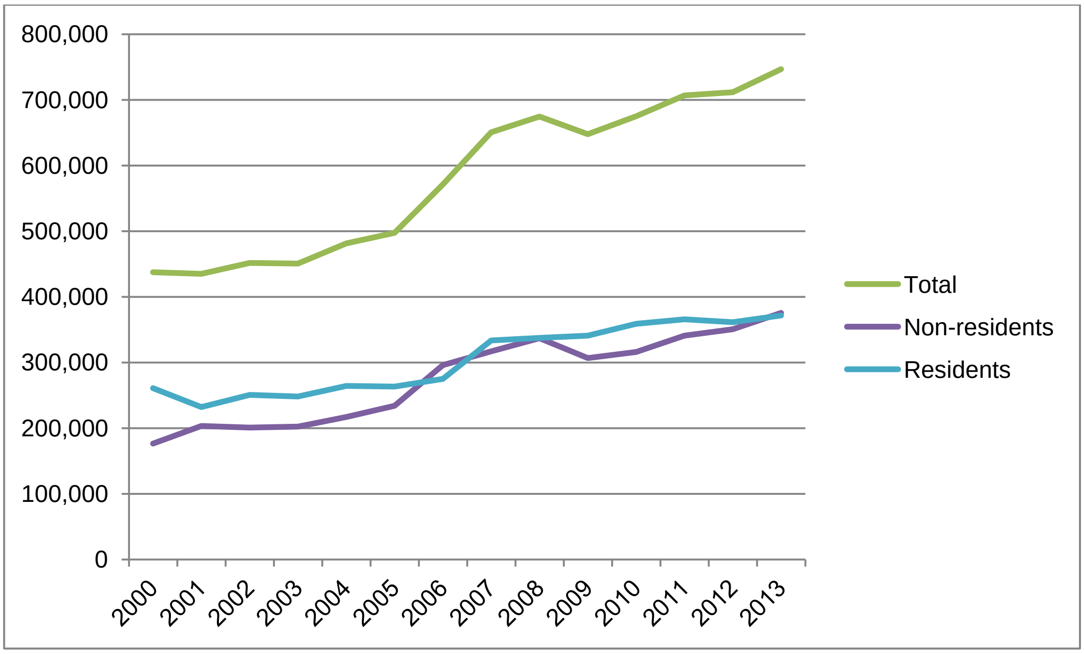
[30] Own calculation of Annual Growth Rate
[31] Numbers comparison of overnights stays between spa and collective accommodations are to be found in the annex
[32] 2000-2013 and 2012-2015 used a different methodology; therefore continuous timeframe from 2000 to 2015 cannot be used

Chart 26: Development of the occupancy in spa accommodation establishments

Year	Number of Guests		
	Total	Non-residents	Residents
2000	437,308	176,387	260,921
2001	435,200	203,166	232,034
2002	451,505	201,028	250,477
2003	450,346	202,126	248,220
2004	481,120	217,134	263,986
2005	497,248	234,141	263,107
2006	571,101	295,911	275,190
2007	650,667	317,016	333,651
2008	674,313	336,921	337,392
2009	647,637	306,748	340,889
2010	674,854	316,097	358,757
2011	706,838	340,913	365,925
2012	711,495	350,402	361,093
2013	746,818	375,278	371,540

Source: (CZSO, 2016)

Chart 27: Development of the occupancy in *spa* accommodation establishments - graphical illustration



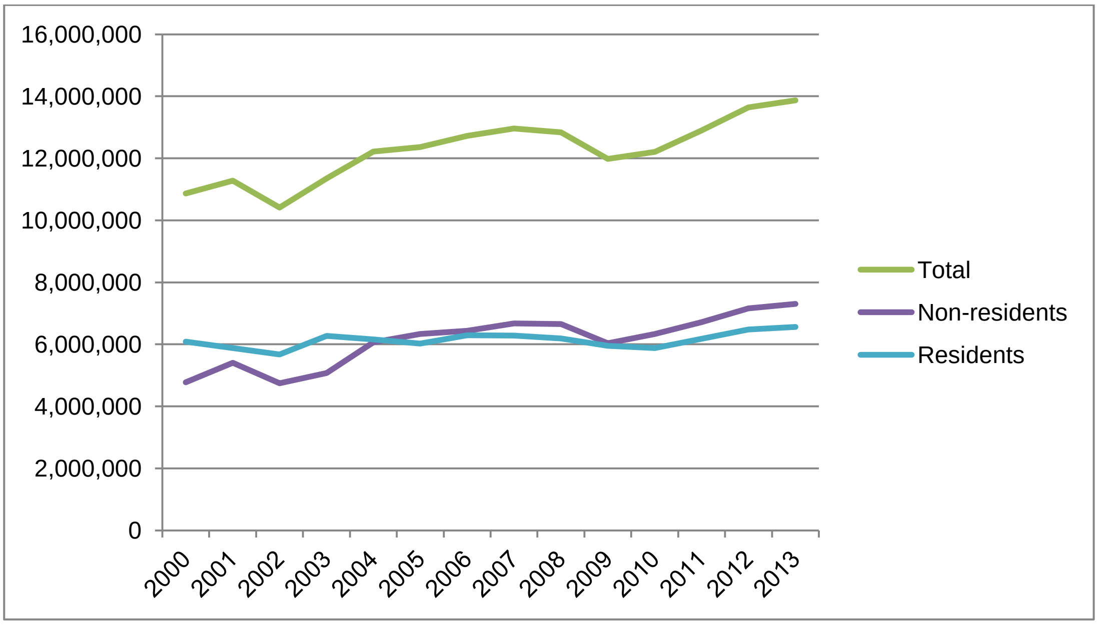
Source: own illustration, data from (CZSO, 2016)

Looking at Chart 25 and 26, it is clear that spa industry in the Czech Republic underwent a boom during these years; the biggest increase happened between 2005 and 2007. The overall number of guests in spa accommodation facilities increased from 437,308 to 746,818. The average annual growth between 2000 and

2013 was 4.2%[33]. The number of foreign guests (non-residents) more than doubled and in 2013 even surpasses the number of domestic tourists. The healthy growth can be attributed to the extensive reconstruction in many of the spa facilities and the improvement of service.

Chart 27 offers a graphical illustration the same 2000-2013 development for guests in collective accommodation for the comparison. Although the overall tourism around the country recorded a healthy growth in this period, the annual growth rate (1.9%) was less than half of what spa tourism achieved. Similarly to spa tourism, the number of foreign tourists grew faster than the number of residents.

Chart 28: Development of the occupancy in *collective* accommodation establishments - graphical illustration

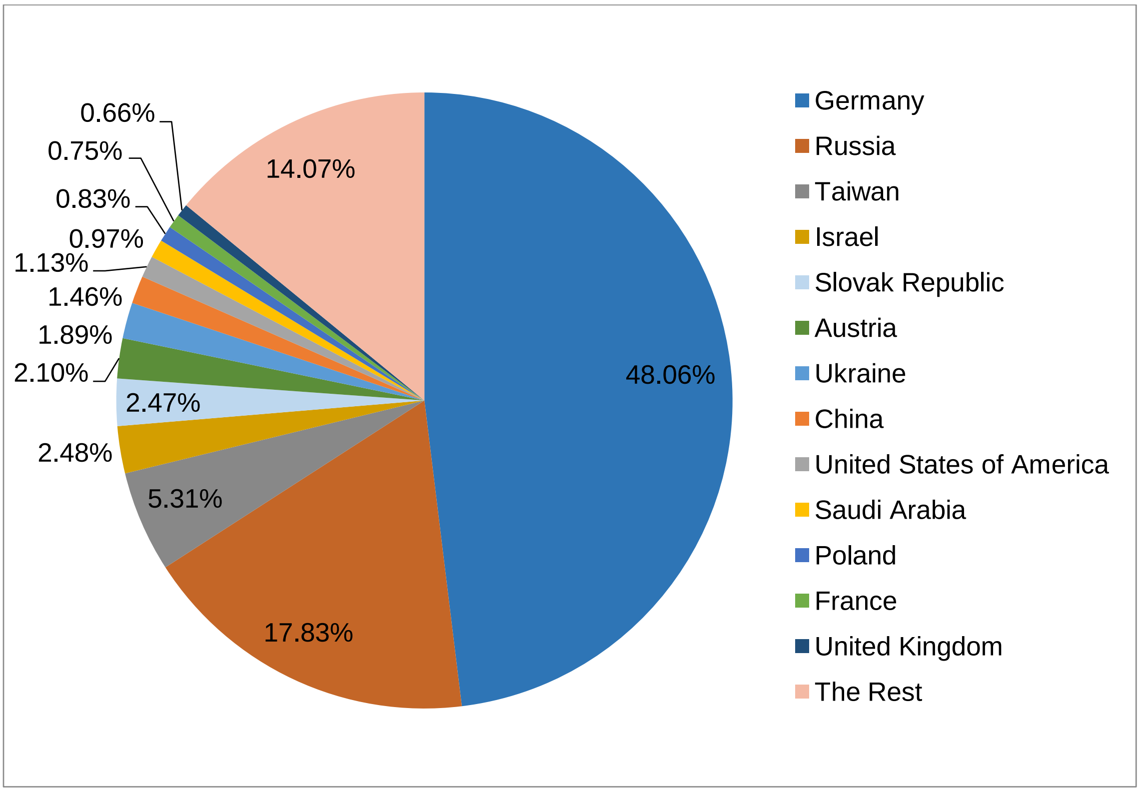


Source: own illustration, data from (CZSO, 2016)

[33] Own calculation of Annual Growth Rate

5.6.2 Guests in spa accommodations according to the country of origin

Chart 29: Foreigners in spa accommodations according to their country of origin in 2015



Source: own illustration, data from (CZSO, 2016)

The above pie chart illustrates the distribution of foreign spa tourists based on their country of origin. The strongest source country is Germany with the total of 152,902 spa guests in 2015 accounting for nearly 50% of all foreign guests. Russian tourists are traditionally interested in Czech spas, especially in the Karlovy Vary region and they account for second most foreign guests with 56,716. However, this presents a huge drop from 2014 when there were 92,448 Russian guests (104,065 in 2013). This is mainly due to the weak rubble as well as the consequences for Russian citizens due to the Ukrainian crisis. Taiwan as number three may come across as very surprising although it just highlights the increasing interest of Asian tourists in the Czech Republic. Number four spot takes Israel, followed by Slovakia, Austria, Ukraine, China, United States and Saudi Arabia closing the top ten. Chart 29 further shows the rankings and the exact number of guests from each individual country.

Chart 30: Top foreign countries based on number of guests in spa accommodations (2015)

	Country	# of guests		Country	# of guests
1	**Germany**	152,902	8	**China**	4,632
2	**Russia**	56,716	9	**USA**	3,609
3	**Taiwan**	16,878	10	**Saudi Arabia**	3,080
4	**Israel**	7,875	11	**Poland**	2,638
5	**Slovak Republic**	7,862	12	**France**	2,379
6	**Austria**	6,686	13	**United Kingdom**	2,100
7	**Ukraine**	6,004		**The Rest**	44,774
				Total	**318,135**

Source: (CSZO, 2016)

5.6.3 Regional statistics

Chart 31: The most important spa regions

	Total			Karlovarský Region			Zlínský Region		
Year	*Number of Guests*	*Non-residents*	*Residents*	*Number of Guests*	*Non-residents*	*Residents*	*Number of Guests*	*Non-residents*	*Residents*
2012	710,858	349,531	361,327	436,664	327,357	109,307	64,100	5,887	58,213
2013	745,935	374,744	371,191	446,515	346,676	99,839	71,603	6,774	64,829
2014	742,281	350,488	391,793	426,147	324,440	101,707	68,179	6,732	61,447
2015	732,276	318,135	414,141	417,806	294,524	123,282	66,384	6,191	60,193

Source: (CSZO, 2016)

The dominancy of Karlovarský (Carlsbad) region is well illustrated in Chart 30. Out of 732,276 guests in spa accommodations in 2015, 417,806 were from this region which corresponds to 57.1%. It is also the only region where the number of non-residents prevails over residents and significantly so. Although the absolute number of non-residents dropped in 2015 in comparison with previous years[34], the number of non-residents in the region accounts for 92.6% of the total in the Czech Republic. Despite the 10% drop in the number of non-residents, the number of residents showed a healthy growth in 2015. The second most visited region is Zlínský with 66,384 guests out of which 90.7% are Czech residents. The most important spa in this region is Luhačovice. Other important spa regions in the country are Olomoucký and Jihočeský (CZSO, 2016).

[34] Mainly due to the drop in the number of Russian tourists as mentioned in the previous section

According to the Institute of Health Information and Statistics of the Czech Republic, Karlovarský region ranks number one in number of patients being treated in spa facilities as well. The region hosted 129,672 adult patients in 2015, way ahead of Jihočeský region (48,062) and Zlínský region (36,570). Only 4,285 patients[35] were treated at cost of health insurance while 96.7% paid at own expense. The other regions are a lot more focused on people being sent to the spa facilities at the expense of insurance companies. In Jihočeský region, 18,542 patients (38.6%) were treated at cost of health insurance, more than 4 times as many as in Karlovarský. Similar situation is in all other region which makes them being dependent on such patients which constitute a large percentage of the total number of treated guests (IHIS, 2015).

5.6.4 Number of patients in Czech spa facilities

Chart 32: Number of adult patients in Czech spa facilities

Year	Number of patients	At cost of health insurance		Out-of-pocket payment	
		Comprehensive (KLP)	Contributory (PLP)	Residents	Foreigners
2000	257,453	107,946	24,850	31,853	92,804
2001	286,981	112,367	23,612	35,674	115,328
2002	279,089	113,513	21,000	35,618	108,958
2003	283,426	114,979	19,897	30,924	117,626
2004	294,102	112,670	19,147	45,282	117,003
2005	299,359	105,324	18,253	55,853	119,929
2006	314,207	94,429	18,572	66,688	134,518
2007	333,970	92,605	15,708	91,896	133,761
2008	373,328	91,488	15,149	112,987	153,704
2009	367,463	98,113	15,040	111,089	143,221
2010	364,945	97,032	14,989	114,788	138,136
2011	348,429	88,035	16,968	111,035	132,391
2012	349,708	71,406	14,734	106,075	157,493
2013	367,371	51,183	12,633	139,270	164,285
2014	336,967	68,478	11,514	126,625	130,065

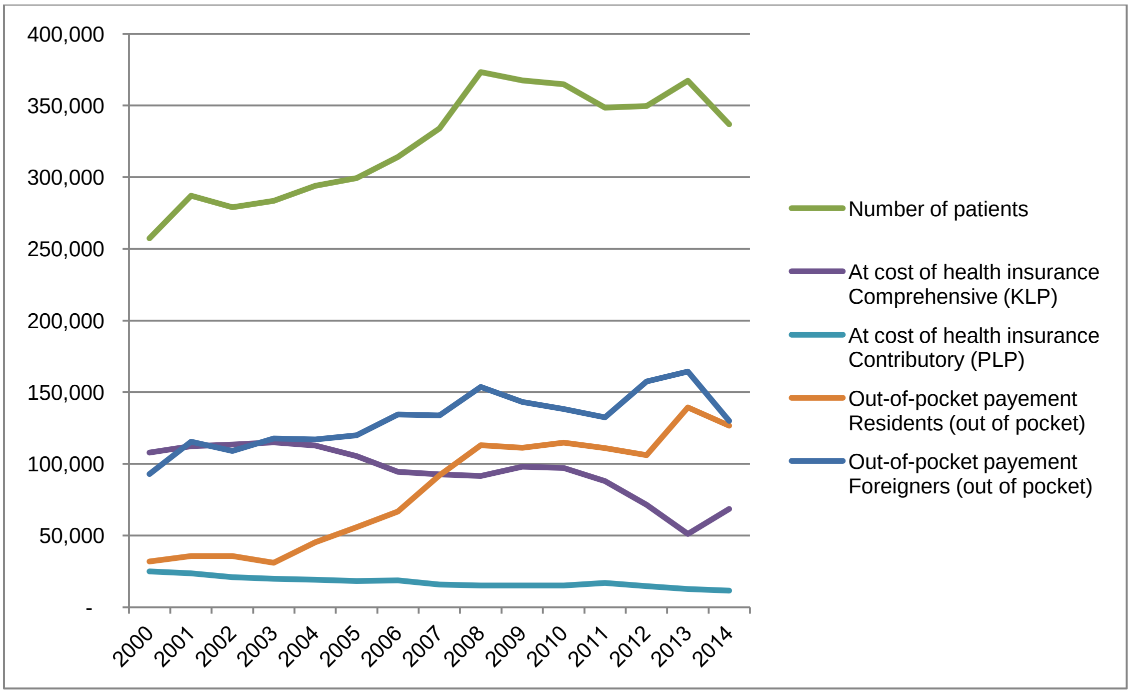
Source: (IHIS, 2015)

The chart above shows the number of adult patients in Czech spa facilities. Adult patients account for over 95% of total number of patients[36] which is why this group is being examined. It can clearly be seen that there was a significant increase in the

[35] 3.3%
[36] The remaining 5% being children and adolescence

number of patients up until 2008 which was followed up by stagnation. In 2013 there were 367,371 patients out of which 44.7% were self-paying foreigners. However, in 2014, 34,000 less foreigners came to visit Czech spas which equals to more than 20% decrease. The number of people travelling to spas at cost of health insurance has been steadily decreasing while the number of out-of-pocket payers has been increasing. Between 2000 and 2014 the number of residents paying out of pocket increased four times. Chart 32 further illustrates the trends during this time period and the respective payment method used by domestic and foreign patients.

Chart 33: The development in the number of adult patients in Czech spa facilities



Source: own illustration, data from (IHIS, 2015)

5.6.5 Further spa care statistics

Chart 34: Provided spa care, comparison of adult patients according to the method of payment (2014)

	At cost of health insurance		Fully at own cost		Total
	Comprehensive (KLP)	Contributory (PLP)	Residents	Foreigners	
Number of admitted patients	68,478	11,514	126,625	130,065	336,682
Number of days of stay	1,468,249	222,798	735,350	1,691,114	4,117,511
Average duration of stay	21.4	19.4	5.8	13.0	12.2

Source: (IHIS, 2015)

Chart 33 provides an overview of the length of stay of patients depending on their method of payment for the spa care. It can clearly be seen that Czech residents who are treated fully at cost of health insurance (KLP) spend the longest time in spa facilities – 21.4 days on average. Patients who have their stay partly covered by health insurance (PLP) stay on average 19.4 days. There is a big difference between residents and foreigners being treated at own cost. While foreigners stay 13 days on average, Czechs only stay 5.8 days. It shows that Czech people are still not willing to stay longer if the care is being given only at their expense. In addition, all patients accounted for a total of 4,117,511 days of stay in 2014 which corresponds to 12.2-day average stay per person.

Chart 35: Types of treatment provided in spa facilities (2014)

Type of treatment	Number of treatments
rehabilitation	2,475,550
hydrotherapy & massages	2,356,686
electrophysical treatments	1,620,052
mineral and thermal baths	1,356,714
other treatments using natural healing sources	1,117,782
inhalations	1,081,771
peloid treatments	839,873
artificial baths	366,261
other treatments	1,928,468
TOTAL	**13,143,157**

Source: (IHIS, 2015)

The most common treatments are rehabilitation and hydrotherapy & massages, both performed over two million times in 2014. These are followed by electrophysical treatments, mineral and thermal baths, other treatments using natural healing sources and inhalations. Furthermore, peloid treatments and artificial baths are also used in considerable numbers. The total number of treatments in Czech spa facilities was 13,143,157 in 2014.

6 Luhačovice

6.1 Introduction & History

Luhačovice is located in Zlínský region in the southeastern part of the Czech Republic among four other spa facilities. This largest Moravian spa town is located approximately 20 kilometers from the most populated town in the region – Zlín[37].

The first written remark of Luhačovice comes from the year 1412; however there are some evidences of settlement of the area prior to this. In 1629 Luhačovice was sold to Gabriel Serenyi whose family remained in its possession for over 300 years until the end of World War II and played a crucial role in the development of the town. During their time, the significance of the medicinal waters in the area was discovered.

The Serenyis realized the importance of the springs and their business potential. Count Ondřej Serenyi decided to adjust a spring coming to the surface with loud bubbling and therefore named it *Bublavý*. Towards the end of 18th century, it was renamed to *Amandka*, which was derived from the first name of a male member of the noble family, Amanda Serenyi. The family developed several other springs in the area and largely contributed to the construction boom around the springs in Luhačovice.

In 1895, the spas have recorded the highest number of guests – approximately 1700. However, the guests also started to complain about outdated equipment in the spas and low comfort in general. 1902 was a crucial year for Luhačovice as a joint-stock company for Spa Luhačovice was created. Moreover, a new railway track from Újezdec u Luhačovic to Luhačovice became critical for the tourism development in the city as there were railway carriages began coming directly from Prague, Brno and Olomouc in 1905.

The current architectural character of the town is largely thanks by a Slovakian architect Dušan Jurkovič who realized many projects in the beginning of the 20th century. His goal was to recognize and understand the environment and values of people who he worked for. Several other famous architects such as Bohuslav Fuchs or J. L. Holzl contributed to the development of the town after the establishment of Czechoslovakia in 1918. The most famous fountain in Luhačovice was created by

[37] 75,171 population as of 1.1.2016

Jan Kavan which was brought over from Brussels and therefore named after the Belgian capital (Slováková, 2016).

6.2 Environmental and culture conditions

Luhačovice is located at the altitude of 250m above sea level southwest from the mountain range White Carpathians[38]. The town is situated in the valley surrounded by peaks of various hills on all sides which reach up to 672m above sea level (*Komonec* peak). Despite being in the lowlands, the climate in Luhačovice has rather a submontane character. Favorable climatic conditions attract visitors primarily during summer months as clear skies prevail from March to October. Winters are generally mild. The spa-setting includes many well-maintained parks and the surrounding offers many deep mostly mixed forests with many hiking trails.

Luhačovice is not sought after only thanks to the balneology but also because of rich cultural facilities combined with the beautiful environment. In the past, there have been many famous artists coming to Luhačovice including Leoš Janáček who kept regularly visiting this spa town. Cultural enthusiasts can visit the Spa Theater (Lázeňské divadlo) which has served the public for over a hundred years. Annually, there is a so called "cultural summer" which brings to the town various music and theatre festivals which significantly enrich the social life and can contribute to the overall experience of the guests during their stay in the spa.

6.3 The springs and treatments

There are currently 17 sodium bicarbonate chloride springs on the territory of Luhačovice and one sulfur spring. 15 thousand liters of water springs to the surface every hour. The springs are valued for its high mineral content as well as for their free-flowing carbon dioxide. The temperature of the water on the surface fluctuates between 10 - 12°C. The most famous mineral springs are Vincentka, Aloiska, Ottovka and the spring of Dr. Šťastný (Teshim, 2008).

Vincentka is the most famous spring in Luhačovice which rises to the surface at the northern foothills of Velká Kamenná. It was known already in 1680 as the main spring although the name Vincentka was given first at the end of the 18th century. The spring is mainly used for a drinking cure and inhalations. It has an increased content of boric acid, fluoride and barium. The bottles containing the mineral water

[38] Protected Scenic Region

from this spring are being sold in pharmacies across the country, in supermarkets as well as abroad. There are 2.5 to 3 million bottles of 0.7l sold every year (Teshim, 2008).

The springs in Luhačovice are used for various treatments. As mentioned before, a drinking therapy is a common treatment which mostly involves people drinking directly by the spring, preferably with an empty stomach. There are three springs used for this reason: Vincentka, Aloiska and Ottovka. Drinking cure has an effect especially when treating diseases of the digestive system and diabetes, and it has some positive effect on the airways.

Inhalations present a very common treatment in Luhačovice. Mineral waters used for this treatment improve airways functioning, have an anti-inflammatory effect and make expectorating easier. Furthermore, bathing in the natural mineral water is a popular treatment used in various forms aimed at treating diseases of circulatory system but are also used for regeneration, relaxation having harmonizing effects. Last but not least, hydrotherapeutic procedures, massages and electro-treatment therapies are used in Spa Luhačovice (Slováková, 2016).

6.4 Joint-stock company Spa Luhačovice (Lázně Luhačovice, a.s.)

Spa Luhačovice belongs to the largest, most significant and popular spa facilities in the Czech Republic. The company provides accommodation capacity of 1,300 beds across 7 hotels, 10 pensions and 2 children's sanatoriums. Furthermore, it owns and manages an entire spa area of 20 hectares including the spa colonnade. Its main focus is on treating diseases of respiratory system among children and adults which makes it a leading facility in this area in the Czech Republic. Moreover, troubles with the musculoskeletal system, digestive system, circulatory system, diabetes and oncological diseases are being treated. Treatments are based on the usage of natural mineral springs in combination with modern rehabilitation and curative methods. This joint-stock company manages 14 out of 16 mineral springs in Luhačovice including the most famous one – Vincentka (Slováková, 2016). Spa Luhačovice offers a wide selection of wellness stays along with the traditional disease & health treatments.

Spa Luhačovice is a member of *Spa & Wellness Nature Resorts* together with Therapeutic Spa Jáchymov[39] which as a whole constitutes the biggest spa group in the Czech Republic. The entire accommodation capacity of the group accounts for around 10% of the entire market in the country. In 2011 50,616 persons used the services of the group of which 12,837 clients came at cost of health insurance. The group had total revenues of CZK 857 million[40]. As of 2011, there were 1069 employees (Kopřivová, 2012).

In the town of Luhačovice, the company faces some competition from spa hotels *MIRAMARE Luhačovice* and from *Lázeňský Dům Praha*, which provide their own complex accommodation, catering, and spa and wellness services. Hotels MIRAMARE belong to the Royal Spa Czech hotel chain which as a whole has the total capacity of almost 1,000 beds. Their spa hotel MIRAMARE in Luhačovice has its own healing springs and offers more than 80 procedures.

6.4.1 Types of stays and treatments in Spa Luhačovice

There are various types of stays tailored to specific clients in Spa Luhačovice. This ranges from all in spa treatments with multiple individual medical procedures daily to wellness stays and anything in between. Clients can choose from different medical spa programs, treatments and wellness centers. Most of the stays are offered for seven days; however 1-day stays are also available as well as discounted longer stays. Price of stay depends on the season, hotel type, room type and treatment (Spa Luhačovice, 2016).

Respiratory and musculoskeletal diseases are first on the list of diseases being treated in facilities of Spa Luhačovice. Musculoskeletal diseases are treated with natural carbonic baths, individual rehabilitation, locomotor therapy, different kinds of massages, peat compress and electrotherapy. Respiratory diseases are treated with inhalation therapy which includes the usage of natural mineral waters, respiratory rehabilitation, drinking cures and natural baths. Further diseases that are being treated include digestive diseases, nerve system diseases, circulatory system diseases as well as diabetes mellitus (Spa Luhačovice, 2016).

[39] In Czech “Léčebné Lázně Jáchymov“
[40] Around EUR 31.7 mil

7 Empirical part – Spa Luhačovice

The empirical part of this thesis consists of three parts. First of all, there is a quantitative part primarily dealing with relevant numbers concerning the company. In the second part, a qualitative research interview was conducted with a spa representative to discuss previous findings. Lastly, a SWOT analysis is performed based on the findings of the quantitative and qualitative part as well as prior obtained information about Spa Luhačovice.

7.1 Quantitative part

According to Lisa M. Given, quantitative research is an empirical investigation of observable phenomena via statistical, mathematical and computational techniques done in a systematic way (Given, 2008).

In this section, the author will firstly point out the relevant data obtained from publicly available sources along with some general information. This will be followed by an analysis of internal clients' data of the company.

7.1.1 Annual reports and public information

According to the consolidated annual reports publicly available on the official server of the Czech judicial system, the joint-stock company Spa Luhačovice was founded April 4, 1992 by registering in the commercial register at the regional court in Brno. The main business areas of company are spa treatments using local curative springs, outpatient specialist care and general practice. Management and use of natural medicinal sources, provision of accommodation and catering services are among other activities also officially listed in the reports (Spa Luhačovice, 2015).

While Spa Luhačovice is a parent company, Léčebné Lázně Jáchymov (Jáchymov Spa) is a subsidiary. Jáchymov has over 20,000 guests every year who spend here 17 days on average (Bláha, 2016). The spa is especially known for its radon waters' healing effect. Jáchymov and Luhačovice together constitute the biggest spa group in the country[41]. Spa stays are in a form of comprehensive and contributory care covered for clients of health insurance companies or there are curative, relaxing and wellness stays for domestic as well as foreign guests who come either individually, with their companies or through travel agencies (Spa Luhačovice, 2015).

[41] The group consolidation also owns Energie Jáchymov and Lázeňská kolonáda Luhačovice (Spa colonnade Luhačovice).

Although both spa fall under the joint-stock company Spa Luhačovice (Lázně Luhačovice a.s.), Jáchymov actually generated higher revenues in the past years. In 2014, Luhačovice generated €15.5 million in revenues while Jáchymov had €18.5 million. The revenues increased in both facilities in 2014 compared to 2013 by approximately €3 million in each. This means 24% annual increase in Spa Luhačovice. 94.5% of the revenues come from treatments, accommodation, catering and rent in Spa Luhačovice while the remaining 5.5% is from sales of goods (ex. wafers). The two facilities combined accounted for 595,066 guest days in 2014 which is a 15% increase compared to the previous year (Spa Luhačovice, 2015).

Chart 36: Revenues of Spa Luhačovice & Jáchymov

	Spa Luhačovice		Jáchymov	
2013	**CZK**	**EUR[42]**	**CZK**	**EUR[42]**
Sales of goods	19,890,000	735,305	10,219	377,781
Treatments, accommodation, catering	319,110,000	11,797,042	413,176	15,274,528
Total	339,000,000	12,532,347	423,395	15,652,309
2014				
Sales of goods	22,674,000	838,226	11,728,000	433,567
Treatments, accommodation, catering	397,340,000	14,689,095	489,953,000	18,112,865
Total	420,014,000	15,527,321	501,681,000	18,546,432

Source: (consolidated annual report of Spa Luhačovice 2014[42], 2015)

The group continues with a program of modernization and recovery of spa facilities and made several new investments. In Luhačovice, investments were done mainly around the spa colonnade. Among other investments, preparations for an extensive reconstruction of hotel Morava took place. The group invested €1.26 million in both Luhačovice and Jáchymov.

The average number of employees of the consolidated group was 1,095 in 2014 compared to 1,031 in 2013. In Spa Luhačovice, the number of employees increased by 32 from 480 in 2013 to 512 in 2014 (Spa Luhačovice, 2015). The higher number of employees is a direct reflection of the annual growth in the number of guest days.

[42] EUR calculations done by the author. Current CZK/EUR exchange rate used was set at 1 EUR = 27.05 CZK as of June 15, 2016

Chart 37: Net income of the group (Spa Luhačovice + Jáchymov)

	CZK	EUR[42]
2011	46,630,000	1,723,845
2012	40,187,000	1,485,656
2013	48,722,000	1,801,183
2014	105,754,000	3,909,575

Source: own table based on the data from annual reports of Spa Luhačovice

Spa Luhačovice bought Jáchymov spa in December 2010 for CZK 700 million (= approximately €25.9 million) and both spas began to appear publicly under a new common name: *Spa & Wellness Nature Resorts*. Therefore, the chart 37 only shows data starting in 2011. The group has made profit every year having stable results in years 2011-2013. The profit grew from approximately €1.8 million in 2013 to €3.9 million which equals to an annual growth rate of 117%.

Positive trend is expected to continue in 2015 for which there is no data publicly available yet[43]. Some regulatory fees in medical area have been canceled which should contribute to an increased demand for spa care. Furthermore, there was a revised list of indications for spa care which in structure and focus of the spa group could contribute to an extra 15% of guest days among insured patients. This should even out the expected lower number of Russian tourists in Jáchymov. Investments into current renovation projects are going to continue. Capacities in both spa towns will be raised. Moreover, the group will continue to cooperate with the towns of Luhačovice and Jáchymov. In the area of human resources, it is apparent that there is not enough qualified labor in the industry. The company will continue to encourage professional growth of employees; however will have to prepare for a change of service offers because of decreasing numbers of certain specialists (Spa Luhačovice, 2015).

7.1.2 Spa Luhačovice statistics

In this section, internal data of Spa Luhačovice will be used, analyzed and compared to the overall development of spa industry in the Czech Republic.

[43] There is, however, data from 2015 available in the next section which were obtained by the author thanks to Spa Luhačovice

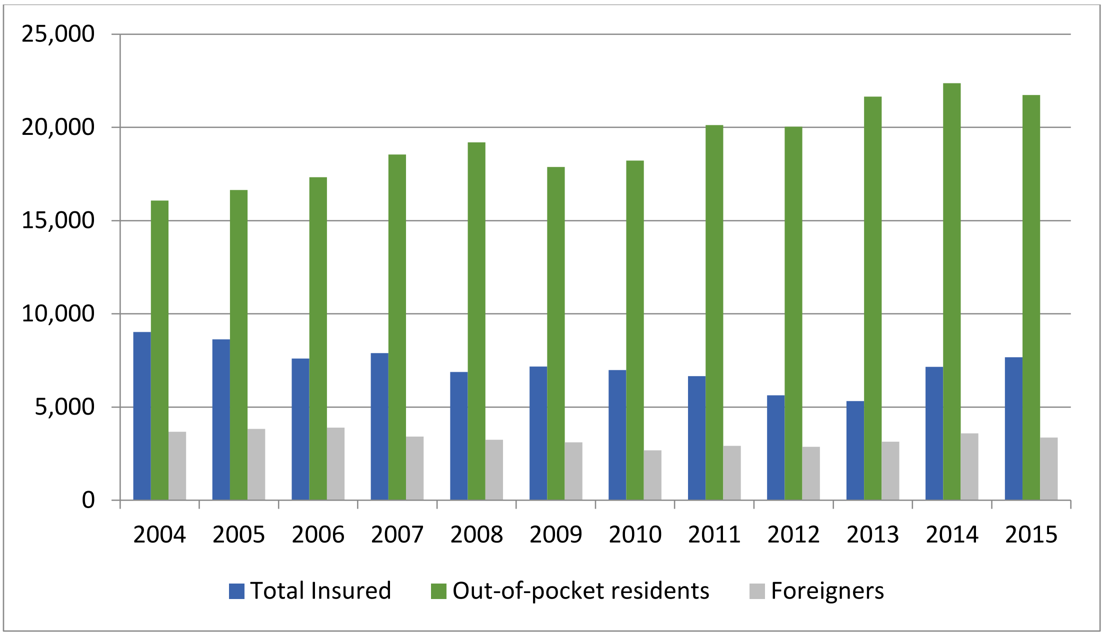
Chart 38: Spa Luhačovice - number of guests (development)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Adults (insurance)	6,734	6,213	5,527	5,609	5,075	5,310	4,947	4,689	3,812	3,318	4,594	4,807
Children (insurance)	1,725	1,799	1,509	1,605	1,237	1,268	1,357	1,342	1,200	1,293	1,666	1,838
Guides (insurance)	568	625	571	673	568	599	670	630	618	705	899	1,032
Total insured	9,027	8,637	7,607	7,887	6,880	7,177	6,974	6,661	5,630	5,316	7,159	7,677
Out-of-pocket residents	16,067	16,636	17,331	18,547	19,197	17,879	18,215	20,116	20,036	21,645	22,372	21,730
Foreigners	3,672	3,821	3,887	3,414	3,247	3,110	2,680	2,926	2,858	3,132	3,593	3,361
Total	**28,766**	**29,094**	**28,825**	**29,848**	**29,324**	**28,166**	**27,869**	**29,703**	**28,524**	**30,093**	**33,124**	**32,768**

Source: (Spa Luhačovice, 2016)

The total number of guests visiting the spa per year was very steady between 2004 and 2012 oscillating between 28,000 and 30,000 guests per year. In 2013 the number of guests exceeded 30,000 and was followed by a 10% increase the 2014. In 2015, there were 32,768 guests visiting the Spa Luhačovice.

Chart 39: Spa Luhačovice - number of guests (graphical illustration)



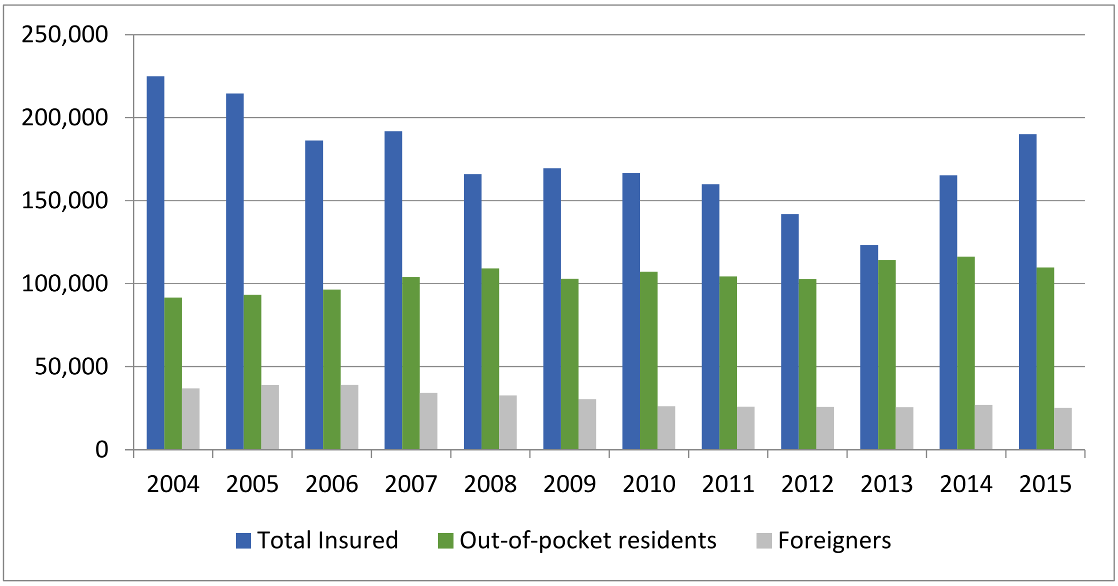
Source: own illustration based on data from Spa Luhačovice

The above bar chart shows graphically the development of number of guests and the respective guest type. The majority of people visiting Spa Luhačovice are residents who pay out of pocket. Their number has been increasing over this time period which goes hand in hand with the overall development in the country. Although the number of people coming here at cost of health insurance has decreased substantially over time, the drop has not been as strong as the average in the country. Year 2014 actually saw a revival of guests coming thanks to their health insurance which was mainly due to the changes in legislation. This trend continued in 2015. Every year, there is a significant amount of children being treated in Spa Luhačovice. There were 1,838 children treated at cost of their health insurance in 2015 which corresponds to 24% of total number of insured guests.

Insured guests tend to stay in spas a lot longer than guests paying out of pocket which is a reason why the number of guest days should be examined in detail. The following charts show how many days per year each group spends in the spa.

Chart 40: Spa Luhačovice - number of spa days

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Adults (insurance)	150,459	137,160	122,604	124,775	112,978	115,827	108,888	104,296	92,183	69,493	96,033	112,796
Children (insurance)	59,345	60,598	47,970	49,044	37,488	37,394	39,470	38,353	32,962	34,773	44,890	49,508
Guides (insurance)	15,093	16,742	15,522	17,983	15,414	16,127	18,343	17,188	16,807	19,082	24,311	27,712
Total Insured	224,897	214,500	186,096	191,802	165,880	169,348	166,701	159,837	141,952	123,348	165,234	190,016
Out-of-pocket residents	91,639	93,359	96,352	104,030	109,213	102,994	107,207	104,331	102,852	114,360	116,160	109,711
Foreigners	36,962	38,851	39,074	34,219	32,652	30,359	26,032	25,991	25,787	25,544	26,922	25,053
Total	**353,498**	**346,710**	**321,522**	**330,051**	**307,745**	**302,701**	**299,940**	**290,159**	**270,591**	**263,252**	**308,316**	**324,780**



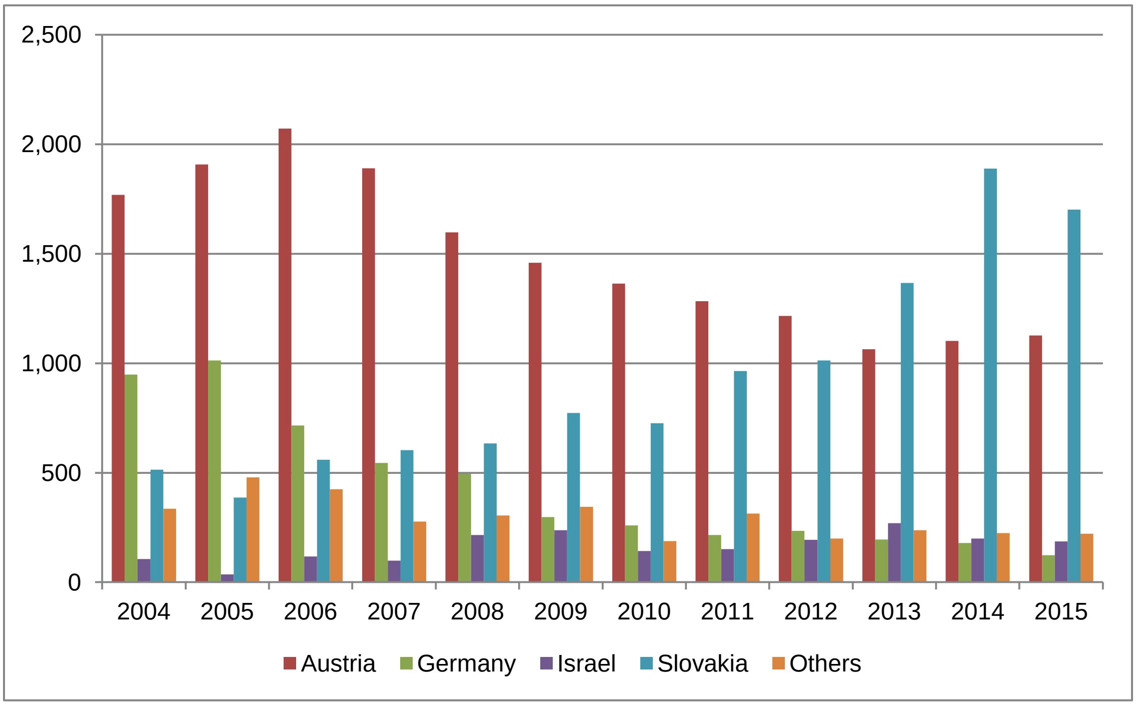
Source: (Spa Luhačovice, 2016)

Total of 324,780 spa days were spent in Spa Luhačovice in 2015. Taking the 32,768 guests into consideration, we get an average stay of 9.91 days per person. Although chart 39 showed that residents paying out of pocket are the most common guests, the total number of spa days spent at the facility was highest among the people coming at cost of their health insurance. They spent on average 24.75[44] days at the Luhačovice facilities while self-paying residents stayed only 5.05[45] days on average in 2015. Furthermore, the length of stay has been decreasing among foreigners. While the amount of foreign visitors stayed more or less the same over the years, they only spent 7.45[46] days on average in 2015 as opposed to 10.06 days in 2004. This is significantly lower than the average spa stay of foreigners in the country. Lastly, the overall development in total number of spa days among residents over this time corresponds to the development in number of guests.

[44] Compared to 21.4-day average in the Czech Republic among this group
[45] Compared to 5.8-day average in the Czech Republic
[46] Compared to 13-day average in the Czech Republic

Chart 41: Spa Luhačovice - number of guests (foreigners)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	1,768	1,907	2,071	1,890	1,598	1,459	1,363	1,283	1,216	1,063	1,102	1,127
Germany	948	1,013	716	545	495	297	260	215	235	195	179	124
Israel	106	36	117	99	215	237	143	151	194	270	199	187
Slovakia	514	386	559	603	634	772	726	964	1,013	1,366	1,889	1,701
Others	336	479	424	277	305	345	188	313	200	238	224	222
Total	**3,672**	**3,821**	**3,887**	**3,414**	**3,247**	**3,110**	**2,680**	**2,926**	**2,858**	**3,132**	**3,593**	**3,361**



Source: (Spa Luhačovice, 2016)

Out of 3,361 foreign guests in 2015, most of them came from Slovakia (1,701 – 50.6%), followed by Austria (1,127 – 33.5%), Israel (5.6%) and Germany (124 – 3.7%). While the number of guests from Slovakia has increased significantly over the 2004-2015 period, the number of German tourist worryingly decreased. The total number fell from 1,013 guests in 2005 to 124 in 2015 account for an annual decrease of nearly 19%. The number of Austrian tourists also decreased although not nearly as dramatically as in the case of Germans. Foreigners overall account for 10.3% of guests in total and 7.7% of spa days spent at Spa Luhačovice facilities. Due to the fact that the number of foreign guests and the number of spa days spent by foreigners developed in nearly identical way between 2004 and 2015, there is no real need for a duplicate graphical illustration[47]. However, it is important to note that

[47] Graphical illustration is put in the annex

the number of foreign days spent noticeably decreased. While 2006 was a peak year with over 39,000 foreign days spent, the number only barely surpassed 25,000 in 2015. Unlike the Carlsbad region, Spa Luhačovice hasn't been influenced by the drop in the numbers of Russian tourists.

Chart 42: Spa Luhačovice - number of spa days (foreigners)

Year	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Austria	20,128	21,895	22,628	21,271	18,509	16,791	15,562	14,380	13,657	11,752	12,279	12,353
Germany	11,646	12,579	9,887	6,704	6,418	3,855	2,890	2,786	2,655	2,208	2,102	1,542
Israel	1,446	386	1,599	1,419	3,177	3,848	2,347	2,393	3,239	3,638	2,890	2,249
Slovakia	1,934	1,693	2,582	2,937	2,841	4,204	3,495	4,092	4,131	5,311	7,446	6,861
Others	1,808	2,298	2,378	1,888	1,707	1,661	1,738	2,340	2,105	2,635	2,205	2,048
Total	**36,962**	**38,851**	**39,074**	**34,219**	**32,652**	**30,359**	**26,032**	**25,991**	**25,787**	**25,544**	**26,922**	**25,053**

Source: (Spa Luhačovice, 2016)

7.2 Qualitative part

7.2.1 Qualitative research interviews

There are three types of research-based interviews: structured, semi-structured and unstructured. Structured interviews are built on administered, predetermined questions with limited or no variation and usually with no follow-up questions to responses for further elaboration. On the contrary, unstructured interviews are performed with little organization and usually start with interviewer asking a casual question. They are usually more time-consuming due to the lack of predetermined questions and difficult guidance. Semi-structured are based on a number of key questions, usually connected to a certain area to be further explored. This allows for more-detailed responses when compared to structured interviews (Gill, 2008).

Research interviews are performed with the intention to obtain deeper understanding of the topic. Such interviews can help to shed a light on unclear events, clarify assumptions about prior findings and find out purposes behind certain actions (Bates, 2008). This research method fits perfectly studying a context one is personally curious about. Furthermore, qualitative research is comprehensive and focuses on real-life experiences. Finally, this type of research can help to explain and reinterpret quantitative data (Tracy, 2013).

7.2.2 Procedure of the conducted interview

In this thesis, the author decided to use a form of guided (or semi-structured) interview. The author has developed a set of question based on the initial findings of the theoretical and empirical part. The interview was done in order to obtain further information relevant to the specific problems which would give the author a greater insight into these issues.

The list of questions was given to the interviewed person prior to the interview to ensure the smoothness of the process. There were some follow-up questions in order to ensure a proper understanding of the topic. Here is the actual list of the primary questions asked in the interview:

- What is the current state of spa industry and how does it differentiate from competition in Europe?
- What is the role of spa within the tourism industry in the Czech Republic?
- What impact does Spa Luhačovice have on regional development?
- How do you perceive wellness tourism? It is clear that your hotel Alexandria keeps attracting more guests. Do you have any plans to expand wellness offerings?
- In the annual report of your company, it is stated that there is a possible shortage of qualified personnel. In what areas it may be a problem? How do you plan to deal with this?
- There is a new spa being built in Pasohlávky which should be finished by the end of 2018. How do you perceive this future competition?
- Is Spa Luhačovice ready for any potential changes in legislation which may mean fewer guests coming at cost of health insurance?
- How do you see the future of Luhačovice and future of the overall spa industry in the country?
- How important is the cooperation with the town of Luhačovice for you?

The selected person for the interview is **Ing. Jiří Dědek, MBA, *executive director of Spa Luhačovice*** who has been active in the Spa Luhačovice company since 1996. Additionally, he has held different positions in Czech Spa Association. The interview was conducted over the phone and simultaneously recorded with the permission of the interviewee. The recorded interview is to be found on the CD attached to the thesis. Czech language was used during the entire process. The main ideas and findings were translated into English afterwards.

7.2.3 Interview results

The interview results and findings are group under relevant topics. All credit in this section goes to Mr. Dědek who provided the answers.

Institution	Name	Function	Date
Spa Luhačovice	Ing. Jiří Dědek, MBA	Executive director	22.06.2016

a) Czech Spa Industry

According to Mr. Dědek, the Czech spa industry is currently doing well when compared to the previous years. There have been favorable changes in legislation since 2014 which helped to stabilize the industry. The main comparative advantage of the Czech spa has always been the quality of medicinal care. This is what separated Czech spas from other European spas. Although lower price used to present relatively big advantage in the past, this is no longer the case. Foreigners come to Czech spas specifically because of the quality of specific curative treatments which are offered here.

The big change has happened in the perception of spas. While twenty years ago, people viewed spas as facilities where sick patients would go, now people associate spas with relaxation, wellness, weekend stays and having a rest. Both residents and foreigners have become increasingly aware that it is beneficial to travel to spas to preventively take care of one's health. This has caused a change in spa stay offers and new investments into infrastructure (hotels, healing services, wellness, parks, architecture etc.).

b) Spa Luhačovice – wellness perception

Balance is very important among all the provided services for Spa Luhačovice. Hotel Alexandria was built as completely different product that would target people coming to spa for wellness. It likely attracts people who would not come to Luhačovice if it wasn't for such wellness hotel. Although the number of guests has been increasing, there is still enough room for a growth. Typical clients of this facility come for three days only. However, the company does not want to develop only wellness but needs to invest into all the programs being offered (curative, relaxation as well as wellness stays).

c) Spa Luhačovice – impact on the development of the region

In terms of jobs, Spa Luhačovice has a big impact on employment having 550 employees in a town of 5,000 people. Focusing on the clients that come here, these people spend additional money in the area in shops, restaurants etc. helping the local economy. In terms of accommodation days spent at the Spa Luhačovice facilities, visitors spend there around 350,000 accommodation days per year out of 800,000 in the Zlín district in total. In the whole Zlín region, the number would oscillate around 20% of total. Thanks to company's contributions to the development of the town, the impact is even larger.

d) Spa Luhačovice – dealing with shortage of qualified personnel

Spa Luhačovice has started to deal with the lack of qualified personnel such as doctors, physiotherapists or nurses. However, personnel can also be missed in other areas especially during growth when more people come to visit. Furthermore, nurses now need to have university education and no longer want to work for low wages. Another issue is connected with the increased migration of workers having medical education. There are different ways the company deals with such issues. Firstly, there must be increased wages in certain area. Secondly, developing human resources department is crucial. Moreover, setting up good conditions for workers is important. For this reason, Spa Luhačovice has recently invested more into housing for their employees.

e) Spa Luhačovice – competition from Pasohlávky

Concerning clients who pay out of pocket, Pasohlávky will present a competition. Since the project is yet to be finished, it is unknown whether or not some patients may be able to come at cost of health insurance. When compared to a new facility which Pasohlávky is supposed to be, Spa Luhačovice will have a comparative advantage in the history of the place, surrounding nature, traditional atmosphere and architecture of the town. Investing in areas that surround the spas is important for Spa Luhačovice and it already sets them apart from other spa towns and facilities in the country.

f) Spa Luhačovice – preparedness for eventual legislation changes

2012 was a year of restrictions (Ex. treatment timeframe at spas for clients of insurance companies was lowered). However, there were some positives alongside the restrictions, especially for Spa Luhačovice. Among other things, it was reconsidered where which treatment can be provided at cost of health insurance. Luhačovice were newly able to treat musculoskeletal system and nerve system disorders. Such problems had been already treated prior but only as part of contributory, not complex care . This change has slowly began gaining effect on the number of Spa Luhačovice visitors which currently culminates as there is an excess of demand over the capacities which has not happened since 1999.

Again, really important is the balance among all services provided (out-of-pocket services such as wellness as well as medical treatments primarily covered by insurance companies). Thanks to having rather significant percentage of out-of-pocket payers to their facilities, the company has survived all the previous legislation changes unlike some other spa facilities.

Act of 2015 eased the restrictions from the 2012 regulations. It is important to note that it is an act and not just a regulation. Acts are a lot harder to change and this act significantly stabilized the spa industry. This act is unlikely to be changed in the near future but Spa Luhačovice is prepared for eventual changes in a 5 to 10 year horizon.

g) Cooperation between Spa Luhačovice and the town of Luhačovice

Cooperation is important because the town directly influences the spa (ex. infrastructure decisions). However, the influence goes both ways. Spa Luhačovice as the major company in the town takes care of significant part of the town's which is also being visited by outside guests. Though the cooperation has improved, it could be better in certain areas – not only with the town but also with other businesses located around the area.

7.3 SWOT analysis

SWOT analysis is an important tool which helps to identify and understand important factors that affect a business. The abbreviation SWOT stands for strengths, weaknesses, opportunities and threats. While strengths and weaknesses refer to internal factors, opportunities and threats deal with external environment. Based on the analysis, the company can better realize their position among competitors. Last but not least, SWOT can help a company to develop business goals and strategies to achieve them.

The following chart applies SWOT analysis to Spa Luhačovice to identify both internal and external influences. Although Spa Luhačovice operates as independent company, the town itself will also be taken into consideration throughout the analysis.

Chart 43: SWOT analysis - Spa Luhačovice

Strengths	Weaknesses
• Long-standing tradition of the spa • Variety of services (treatments, accommodation, additional services) • Clean environment • Architecture and landmarks around town • Proximity of White Carpathians • Quality of treatments/care • Satisfaction of clients • Price advantage compared to Western Europe • Relative proximity to Austria (Vienna) • Rich cultural program during summer	• Location • Seasonal differences in number of visitors • No packages for shorter stays • Difficult to attract qualified employees • Weak cultural program during winter • Road and pavement conditions in town • Rather low percentage of foreign visitors
Opportunities	**Threats**
• Increasing awareness of benefits of medical tourism • Increasing demand for wellness • Cooperation with travel agencies • Clients willing to pay out of pocket • New short wellness/weekend offers • Conventions • Better cooperation with the town • Increasing demand from Slovakia	• Legislation changes • Lack of qualified employees • Competition from spas in Slovakia & Hungary • Changing character of town - migration of young people • Cancellation of public transport connections • Economic crisis

Source: own illustration

Spa Luhačovice has a long-standing tradition in the industry and belongs to the most attractive Czech spas with its variety of services. Although price is still an advantage when compared to Western European countries such as nearby Austria, the clients now come to Luhačovice mainly for the quality of services. The town has a pleasant and clean environment with number of activities available to the visitors. There is a rich cultural program especially during the summer months. Additionally, its relative proximity to Vienna (180km) can also be considered strength.

However, the location is arguably the town's biggest weakness. Firstly, it is relatively far from any major roads. Secondly, it is located far from major tourist attractions in the Czech Republic making it harder to reach, especially for foreigners. This is shown in relatively low percentage of foreign visitors among all guests. Additionally, it is harder to attract qualified personnel willing to work in such location. The spa also has to deal with the volatility in visitor arrivals. While the interest is strong during summer months, winter season fails to attract enough visitors. However, this is a problem of the entire industry in the country. Moreover, Spa Luhačovice offers packages of 7-day or longer stays and shorter (ex. weekend-stays) offers are missing. Although curative treatments require a longer stays, residents especially could take an advantage of shorter stays focused on wellness.

The first opportunity comes from an increased awareness of benefits of medical tourism. People travel more ever for health care abroad and spas have the potential to take an advantage of such trend. Although there is also a rising demand for wellness, spas need to be careful not to compromise their general medical treatment programs. However, the number of residents willing to pay out of pocket has been increasing which presents an opportunity to target this group. Nevertheless, new wellness offers can attract additional customers. The spa can start offering packaged short weekend stays focused on wellness for these clients. Additionally, further cooperation with travel agencies may bring a higher amount of foreigners to the town. Moreover, Slovakian arrivals have been significantly increasing which shows that there is a potential to attract even more visitors from this nearby market. Lastly, having a place open for various conventions and congresses around spa facilities may present a new business opportunity.

There are several threats concerning Spa Luhačovice. First of all, legislation regarding spa treatments and their coverage by insurance companies has changed multiple times in the past years. Spas all over the country need to be prepared in case there are further cuts made on the indication list. However, this is a threat rather in distant future as the recent act change rather stabilized the industry and further changes are unlikely in near future. Secondly, Luhačovice faces some competition from spas located in nearby countries, especially from Slovakia. However, foreigners from Austria might also prefer Hungarian spas which are located in approximately the same distance. Furthermore, due to the town's location and limited opportunities, young people tend to leave the town and it is difficult to attract qualified personnel to come working here. Because of declining population of the town, another threat could potentially be a cancellation of some public transport connection which can have some effect on people visiting the spa. Last but not least, economic crisis is always a threat as people tend to try saving more money than usual. In such case, for example wellness programs would likely see a declining demand.

8 Limitations of the thesis

The author is aware that there are some limitations of the thesis which need to be taken into consideration.

The most significant issue is connected with a lack of either available or reliable data concerning wellness and spa industry both in the Czech Republic and in a global or European statistical scope. Although the Czech Statistical Office and Health Information and Statistics of the Czech Republic provide good overall data about the spa industry in the country, more detailed data concerning regions is not available and wellness data is missing completely. This creates an issue as it does not allow for a deeper analysis. The Global Wellness Institute is the only organization which comprehensively provides a global data overview of wellness, as well as the spa industry. However, the data is not always up-to-date and there are some concerns raised due to the differences in data collection among countries.

Additionally, there might be some minor errors connected to a translation as most information concerning the Czech spa industry and Luhačovice was available only in Czech language. The interview was conducted in Czech language as well. Nonetheless, the author believes that no crucial mistake, that would affect the findings of the thesis, has been made.

9 Conclusion

The main goal of the thesis was to provide a complex overview of the spa industry in the Czech Republic and to perform an analysis of Spa Luhačovice with a comparison to the overall state of spa and wellness in the country. The thesis started broadly covering the significance of wellness and spa on a global level and continued with a more detailed coverage of the Czech spa market.

First part of the thesis focused on global overview of wellness and spa to point out the growing importance of the industry. Here, the Global Wellness Institute (GWI) provides most of the necessary data although some of the up-to-date data is missing. Wellness tourists make greater economic impact, spending more than twice as much as average tourists per trip. The wellness tourism market was estimated to be $494 billion in 2013 and the number of trips is expected to grow 9.1% annually between 2012 and 2017, compared to 6.2% of general tourism. Wellness tourism in the Czech Republic is projected to grow 8.9% yearly during the same time period.

The popularity of wellness is connected with an increasing number of people trying to take a better care of their health. Wellness is a search for enhanced quality of health and life. People, who try to actively maintain their health, are the driving force of the wellness industry.

Spas play a crucial role within the wellness industry. However, it is important to note that large portion of spa expenditures are due to medical tourism and not wellness tourism. Unfortunately, there isn’t enough available data to distinguish where the money comes from. Estimation by GWI suggests that spa tourism industry takes a 41% share of the wellness tourism market. Europe is the most important spa market ahead of Asia and North America. The $94 billion spa industry managed to generate a total economic impact of $277.1 billion in 2013.

The spa industry in the Czech Republic is currently stable due to recent legislation changes. Revised acts and regulations have been greatly affecting the spas because the changes have touched the maximum possible length of stay for people coming at cost of health insurance as well as the list of treated diseases. Czech spas are known for their medical quality and even nowadays, the main focus remains there rather than trying to switch it to wellness-related offerings. That being said, the number of patients coming at the cost of their health insurance companies was steadily decreasing until 2013. At the same time, the number of out-of-pocket payers, both residents and foreigners, has been increasing. This is connected with the different perception of spas in the Czech Republic. Twenty years ago, the public used to view spas as facilities where sick people would go to; however, nowadays people associate spas with relaxation and wellness. Therefore, they are also willing to pay for such services out of pocket and increasingly so. Furthermore, favorable act changes happened in 2014, enabling more people to visit spas without having to pay for themselves. This actually changed the decreasing trend of the number of people coming at the cost of health insurance.

Although the increase in absolute numbers of spa tourists was faster than for overall tourism between years 2000 and 2013, years 2014 and 2015 experienced a slowdown which was mainly due to a major decrease in the number of tourists from Russia whose frequent destination have been the spa resorts in or near Carlsbad (Karlovy Vary). This is the most important spa region which received over 57% of total spa guests in the Czech Republic in 2015 (92.6% of all foreigners). Moreover, the spa industry accounts for 4.3% of total tourist guests in the country and for 14.1% of overnight stays, showing a much higher average length of stay of spa tourists. Due to longer stays of spa visitors, they manage to spend more money making a larger economic impact than regular tourists.

Finally, the last section dealt with the largest spa town in Moravia called Luhačovice and was specifically focused on the company Spa Luhačovice. This company employs 550 people, provides an accommodation capacity of 1,300 beds and has major impact on local economy. The company dealt well with all the legislation changes and did not experience a slowdown in 2014/15 like the overall industry, but rather a revival. This is also due to the fact that the decrease in the number of Russian tourists did not affect Luhačovice as foreigners come primarily from Slovakia and Austria.

Spa Luhačovice received 33,000 guests in 2015 which totaled 325,000 spa days spent, out of which over 55% were from people coming at the cost of health insurance. The main focus of the spa is the treatment of musculoskeletal and respiratory diseases. Moreover, there has been a significant increase in people coming for wellness to their hotel Alexandria. However, the company does not only need to focus on wellness development but also needs to invest into all areas as a major comparative advantage lies in the quality of the medical services. Pleasant environment in a small town with a good infrastructure makes Spa Luhačovice one of the most distinguishable spas in the Czech Republic. Although the company is currently doing well, there are a few challenges for Spa Luhačovice to look out for in the future. This includes dealing with a possible shortage of qualified personnel and making a clear differentiation from Pasohlávky, a new spa which will be finished by the end of 2018. Nevertheless, the position of Spa Luhačovice on the Czech spa market is currently strong enough and the spa finds a continuous stream of clients without too much volatility.

10 List of references

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11 Annexes

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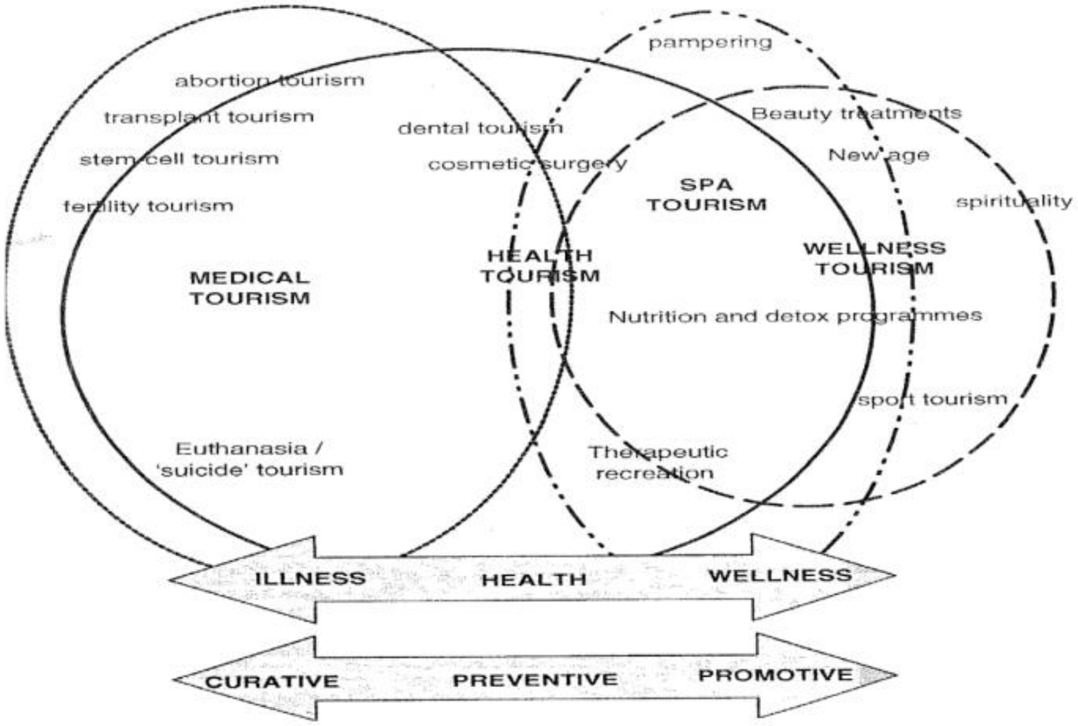
Annex I: Graphical illustration of interrelatedness of medical and wellness tourism domains and product niches



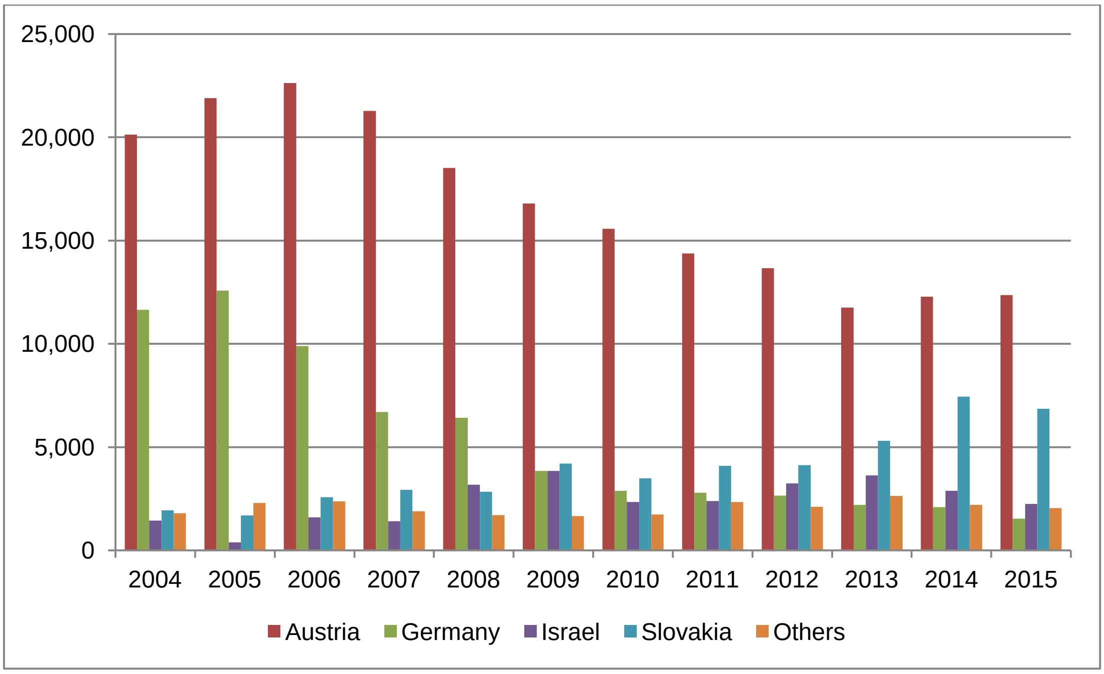
Source: (Hall, 2013)

Annex II: Chart of overnight stays in the Czech Republic - spas and tourism overall (comparison)

	SPA			TOURISM OVERALL		
Year	Total	Non-residents	Residents	Total	Non-residents	Residents
2012	6,643,959	3,053,101	3,590,858	43,278,457	21,793,985	21,484,472
2013	6,046,764	3,121,851	2,924,913	43,308,279	22,144,896	21,163,383
2014	6,409,326	2,939,287	3,470,039	42,946,929	22,110,112	20,836,817
2015	6,616,594	2,536,356	4,080,238	47,086,608	23,295,321	23,791,287

Source: (CSZO, 2016)

Annex III: Graph of Spa Luhačovice - number of spa days (foreigners)



Source: (Spa Luhačovice, 2016)

Annex IV: List of interview questions - Spa Luhačovice

- What is the current state of spa industry and how does it differentiate from competition in Europe?
- What is the role of spa within the tourism industry in the Czech Republic?
- What impact has Spa Luhačovice on regional development?
- How do you perceive wellness tourism? It is clear that your hotel Alexandria keeps attracting more guests. Do you have any plans to expand wellness offerings?
- In the annual report of your company, it is stated that there is a possible shortage of qualified personnel. In what areas it may be a problem? How do you plan to deal with this?
- There is a new spa being built in Pasohlávky which should be finished by the end of 2018. How do you perceive this future competition?
- Is Spa Luhačovice ready for any potential changes in legislation which may mean fewer guests coming at cost of health insurance?
- How do you see the future of Luhačovice and future of the overall spa industry in the country?
- How important is the cooperation with the town of Luhačovice for you?