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HEALTHY LIVING

Boom. Health is a way of life in industrialized countries. As Europe's biggest market for medical products and services, Germany has a very promising out-of-pocket health-care market not covered by health insurance providers. As the population ages, opportunities for foreign investors are huge in this rapidly expanding segment.

Germany was the first country to introduce a national health insurance system, back in 1883, under Chancellor Otto von Bismarck. It provided coverage for industrial workers and tradesmen and was based on the principle of solidarity, meaning that the healthy helped the sick; the insurance contributions, paid jointly by workers and their employers, were the same regardless of age, gender, or one's state of health. The system survived the upheavals of the twentieth century, and today more than 85 percent of Germans, some seventy million people, are covered by 132 statutory health insurance companies. A further nine million are privately insured, and the remaining three million have special insurance provisions that cover organizations such as the army. That brings us to a total of 99.8 percent of people in Germany who have health insurance.

Now new challenges have arisen. Today, Germany has to face the aging demographics as well as increasing costs in health-care services. Germany is very health-conscious; people talk about their health the way the British discuss the weather. In fact, visitors are often startled to discover that the country has terms for diseases no one else has ever heard of. Take *Frühjahrs Müdigkeit* — spring fatigue — for example. Or *Kreislaufstörung* — circulatory disruption — which sounds lethal but just means feeling a bit below par. And then there's the *Biowetter* report on television and in newspapers, a kind of weather forecast that lets you know in which parts of the country you are likely to suffer from a *Kreislaufstörung* today.

German health expenditure totaled EUR 314.9 billion, or EUR 3,910 per capita, in 2013 according to the Federal Statistics Office, a 4 percent rise on 2012, making it the biggest health market in Europe. In the last two decades, successive German governments have reformed the insurance system to cut costs in response to a rise in contributions from employees and employers driven by surging health spending



as the population ages. Those contribution hikes were deterring job creation and putting a brake on economic growth.

In the course of these reforms, insurance coverage has been pared down. Patients are being required to pay for an increasing share of treatments and drugs out of their own pocket. This development, together with a growing readiness to spend money on one's personal health and well-being, has boosted the market for all kinds of health goods and services funded not by insurers, but by consumers themselves.

This “out of pocket” market, known in Germany as the “second health market,” because it covers goods and services not paid by insurers, is vast. It comprises everything from over-the-counter cough medicine to probiotic yoghurt, from vitamin pills to wearable devices that monitor your pulse, and from wellness holidays to Nordic walking sticks.

The German out-of-pocket health-care market is estimated to be worth over EUR 40 billion annually, and has been growing at a rate of 4 percent per year for over a decade – well above GDP growth. Each adult in Germany spends an average of EUR 900 on their health per year, on top of their frequently sizable monthly insurance contributions, according to a study by the Roland Berger consultancy.

The core target group is the generation 50 plus, which accounts for more than 40 percent of the German population and over 50 percent of spending in the out-of-pocket market.

“There are many people in Germany who are prepared to spend a lot of their own money on their health,” says Melanie Wiegand, a consultant at *Germany Trade & Invest*. “Everything points to growth in this market because health is increasingly becoming a way of life in Germany, and people are getting older.”

Sales of over-the-counter (OTC) drugs, a large part of the out-of-pocket market, totaled EUR 8 billion in Germany in 2013, an increase of 6 percent. It's the largest

40 BILLION

The so-called “out-of-pocket” market is estimated to be worth over EUR 40 billion annually and has been growing faster than the German GDP over the past decade

OTC market in Europe and is expected to keep on growing healthily – particularly considering that Germany has one of the lowest birthrate in the world, which means an ever-shrinking proportion of the population will be paying into the welfare system in the coming decades. The notion of the cradle-to-grave welfare state is a thing of the past. Self-reliance is the watchword for people as they age.

Furthermore, there is a growing realization among German policymakers that a buoyant private market can help safeguard the health insurance system over the long term by keeping people healthier and less in need of expensive medical care.

In a sign that the political environment for health products and services is likely to remain favorable, the Bundestag lower house of parliament debated a draft law to boost funding for disease prevention in March of this year. “The aim is to prevent diseases before they even occur,” says Minister of Health Hermann Gröhe. “That is why we must organize the environment in which we live, learn, and work in a way that promotes good health – in kindergartens, at school, at work, and in homes.”

At first sight the German health market may seem dauntingly complex, with its decentralized system of health insurers, the statutory and private insurance market, and the continued dominance of pharmacies as distribution channels for over-the-counter drugs.

“It often takes me half a day to explain how the German health system works,” Professor Roland Trill, an expert on the fast-growing digital health market, says. “Other countries have a health sector that is strongly steered by a single ministry. In Germany, you have public, private, and other organizations in various sectors. This complex structure can make things difficult to understand.”

Germany Trade & Invest is keen to provide foreign investors with guidance. There is no doubt that the scale and growth prospects make this market highly attractive. —

OVER-THE-COUNTER DRUG MARKET

Interview with Melanie Wiegand, Senior Manager Investor Consulting at *Germany Trade & Invest*.

Which OTC market segments promise particularly strong growth in the future?

Wiegand: Painkillers, digestive medication, vitamins and minerals, eye medication, anti-anxiety remedies, and medication against nausea and cravings. And of course cough medicine, which is the biggest product group. Demand for these products isn't just linked to unhealthy lifestyles; it's mainly a consequence of demographic change.

Will pharmacies continue to dominate the market?

Wiegand: Yes. The pharmacies are very firmly established outlets in Germany, and they will remain important in the future because people in Germany place a lot of trust in pharmacists. But mail order will continue to grow because of changing purchasing habits.

What strategies are best for foreign investors seeking a foothold in Germany?

Wiegand: There is no best strategy. Every market and every sector has its own characteristics. There are only individual solutions. Every market entry strategy should be preceded by a thorough analysis. Companies need to ask themselves: What's my unique selling point? Who's my customer? How strong is the competition? What communication and distribution chan-



Melanie Wiegand is *Germany Trade & Invest's* leading expert in the field of demographic change. She identifies innovative business fields and future markets for Germany. Before joining *Germany Trade & Invest*, Melanie Wiegand worked for major multinational companies in various senior strategic marketing positions, developing health-care products and services for leading brands in international markets.

nels do I need to reach my customer? Who's my distribution partner? What legal status will my product have? This is where *Germany Trade & Invest* can help companies.

Does Germany offer better opportunities for investors than other markets that, at first sight, are easier to enter?

Wiegand: Definitely. Germany's pensioners are a financially strong consumer group. Their readiness to spend their own money on health products and services is high. Besides, from the outside, every market looks a bit complicated and hard to fathom initially. It's up to the company to deal with the local conditions. The German OTC market is attracting huge interest abroad.

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BUSINESS DRIVER SELF-MEDICATION

The over-the-counter drug market in Germany has seen consistent growth in recent years, fueled by a 2004 health-care reform that encouraged consumers to self-medicate in order to relieve the health insurance system. In 2014, it grew 2.5 percent to EUR 8.5 billion, after 5.8 percent growth in 2013, according to figures from IMS Health. Mail-order distribution saw the strongest sales expansion, with 11.6 percent, but accounted for just 11 percent of sales.

Companies wishing to enter the German market should be aware that the most important distribution channel by far is the retail pharmacy, which in 2014 accounted for 77 percent of the OTC market. They should also know that German law forbids pharmacy chains, common in the United Kingdom and the United States, although many pharmacies in Germany are members of wholesale cooperatives to maximize their buying power.

Investors targeting this market should observe German idiosyncrasies: the regulations may at times seem as surprising as the freedoms. There is no general speed limit on the motorways, for example. But if you have a headache and want to buy a painkiller, you'll have to go to a pharmacy to get it – for safety reasons it will not be available in the supermarkets. The key to accessing the German consumer lies in persuading pharmacies to stock and recommend your product, because Germans trust their local *Apotheke*.

"Pharmacists are generally well trained, pharmaceutical safety is a frequently discussed issue in German media, and the German public is generally reluctant to trust big pharma, so they appreciate the advice of their local pharmacist," Gerhard Müller, Principal at IMS Health, explains. The key to maximizing sales is to choose the right pharmacist. It's also important, of course, to select the right advertising strategy. Careful market research, as always, pays dividends.

The biggest segment of the mobile health market in Germany is hardware – wearable devices – accounting for EUR 427 million.

SURGING DEMAND FOR HEALTH APPS

Contact lenses that measure blood glucose in tears, smart carpets that call for help when elderly people have fallen down, watches that record how much you walk, software apps that can spot autism in children or make life easier for diabetes sufferers: the mobile health market is both vast and growing, and this growth in Germany is, at present, being driven mainly by start-ups and by consumers willing to invest their own cash in digital solutions to improve their health.

Sales in the so-called mHealth market amounted to EUR 906 million in Germany in 2012 and will grow to some EUR 3 billion by 2017, according to the consultancy A.T. Kearney. Germany accounts for some 15 percent of global sales, yet experts say the market is still in its infancy and has enormous growth potential. The biggest mHealth segment is hardware – wearable devices – accounting for EUR 427 million in Germany, and projected to increase by 33 percent by 2017.

Surprisingly, given its image as one of the world's top IT locations, Germany has been slower than other major economies to embrace digital technology in the health sector. Some analysts attribute this situation to the traditional fragmentation of the system, in which health insurers, medical professionals, and the government each play powerful roles.

However, some health insurers, such as Techniker Krankenkasse, the biggest in

Germany, are already offering smartphone apps and online advice in response to growing pressure to cover more mHealth services. The German government, keenly aware of the importance of digital systems in cutting costs and improving medical services as the population ages, is planning an "eHealth Law" to regulate and promote the market. It is expected to come into force in 2016.

Germany's health market is quite complex and highly regulated. But it is also the largest in Europe and crowded with solvent, technologically minded people intensely interested in preserving their health and well-being. Germany is on the brink of a bottom-up or consumer-driven digital revolution in health care. Foreign investors stand to reap major rewards if they enter the out-of-pocket market and approach customers with their innovations.

At present, the main customer segment is technically savvy people aged 20 to 45. But that is bound to change as older people are introduced to the evident benefits of mHealth: reassurance through constant monitoring without having to go to the doctor all the time, greater independence, and a greater chance of early diagnosis.

"The key now is to interest new customer groups, such as the chronically ill, for whom telemonitoring could play a decisive role," says Professor Roland Trill, an mHealth expert at the Flensburg University of Applied Sciences. "Asthma, diabetes,

chronic heart insufficiency – that's a mass market, and I've noticed that there's a readiness to pay EUR 80 to 100 per month if necessary if it provides greater security. Of course, people would like to have their outlays reimbursed by insurers, but if the benefit is evident they're also prepared to pay themselves."

He adds that older people were keen to explore electronic health applications. "I give talks to senior citizens groups, and I get 80 to 90 percent interest from people who say 'Why don't we have that?' There's strong demand, especially if benefits are well explained."

The key, as ever, is to know your market and who to approach. "You need good knowledge of the German health market, and of what certification will be needed. And if you're seeking health insurance coverage for your product, you need good contacts with prospective partners among the insurers," says Julia Rühle, a consultant on digital health at GTAI. "If you're targeting the out-of-pocket market, you also need to know your distribution channels – pharmacies, the Internet, electronic retailers."

Providers should also be aware that Germany attaches great importance to data protection – and that consumers will need to be reassured that their personal medical data is always secure. _____

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DIGITAL HEALTH IS BECOMING A THING OF THE PRESENT

Interview with Ulli Jendrik Koop, founder and CEO of XLHealth, a Germany-based investor in digital health start-ups.

How buoyant is the German digital health sector?

Koop: App store download rates have been showing strong growth for months, and health is the number one topic currently. Germany has an active start-up scene and a growing ecosystem to boot. Digital health has developed from a trend to a solution in this country too.

How does the German market differ from other European markets?

Koop: The German digital health market is showing continuous growth because start-ups, investors, insurers, and service providers have recently started working together.

The United States still leads the way in digital health, but in Europe, Germany is among the leaders, and Berlin is becoming an international start-up hotspot.

Which market segments offer the best entry opportunities for newcomers?

Koop: It's easiest to get into the market for wellness and well-being products. Consumers are already interested in their health and are looking for solutions. Applications that assist in prevention and early diagnosis are also popular. At present, the biggest area is in chronic illnesses that require intensive monitoring. By using the smartphone as a companion, it's easier for the patient to keep a digital overview of nutrition or insulin doses, for example.

Who are the main digital health customers?

Koop: From what we've seen, the assumption that digital health is something for younger people only has been outdated for quite some time. We do see a tendency toward digital-savvy, health-conscious people when it comes to fitness and wellness. But the capabilities of digital health in assisting with chronic illnesses, supporting prevention, or supplementing therapies are a solution for everyone. NeuroNation, the fitness gym for the mind, reached a broad customer spectrum from the outset on the Web, on mobile, and through the app, especially among older target groups. —

Apps are becoming increasingly popular in the digital health sector.

