Global Leisure Perspectives

Leisure industry trends from around the globe

March 2019

kpmg.com/uk/leisureperspectives2019
Introduction

Forecasting the future is no easy task, especially in the leisure sector where factors such as consumer spending, the weather and geopolitics are key ingredients in determining the direction and ultimate profitability of the sector.

On top of this we also have to navigate the uncertainty that the UK’s departure from the EU poses, and are already seeing the effects that this will have on trade, employment and consumer spending not only directly for the UK, but globally. It will become difficult to find skilled people who are the right fit for your brand or organisation, and leisure companies are going to need to convince their talent to stay.

For travel agents in particular, to make the most of this period of uncertainty and beyond, they must ensure that their contingency plans are focused on customer experience excellence – many customers will now be valuing reassurance and security as much as fun and excitement in their booking criteria. In practice, this means agents offering better deals to more locations, giving practical advice on bookings and ensuring they are available when holidaymakers have questions.

But it’s not only travel operators who need to provide a seamless customer experience, and these efforts shouldn’t only ramp up due to Brexit. Globally, we’re seeing a number of leisure companies refocus their
efforts around the customer, to effectively become a ‘customer-led’ organisation. Whether you are a pub, restaurant, hotel, gaming operator, sporting facility or tour operator, those who focus their business strategy around the customer are well positioned for growth. The role that data and analytics has to play here is also paramount, as personalised experiences become more important.

It’s a tough task to keep up with our ever-changing consumers, and with increasing technological innovations, this trend isn’t set to ease off any time soon. In the casual-dining space in particular, we see customers valuing simplicity more and more. This also helps keep costs down and lets the operator focus on doing one (or a few) things really well.

Although the market is tough globally, good brands can still thrive and there’s lots of opportunity. We’re seeing the hotels market respond to disruption and remain competitive against an influx of new entrants by focusing on brand acquisition as a key growth strategy, as well as new brand development adding to existing portfolios. This is building scale (and further disruption) as consolidation increases and brands gain a customer base in new high-revenue generating markets. The wellness industry is also booming globally, and we’re seeing an increase in deals and consolidation in this space too.

The environment for gaming operators could also be promising with the repeal of the Professional and Amateur Sports Protection Act (PASPA) in the United States. This has opened up potential opportunities for gaming operators globally. However the recent judgement on the Wire Act has added to the complexity. Other markets are planning to regulate gambling such as Brazil which will lead to further growth opportunities.

As the landscape changes and businesses are in flux there’s one thing for sure; the consumer still increasingly values the experiences that the leisure industry offers – whether that’s eating out, holidays and tourism or gaming. When it comes to leisure, they make decisions with their heart as much with their head, and there’s plenty for the industry to play for.

Will Hawkley
Global Head of Leisure and Hospitality
KPMG
The Brexit effect on global travel and tourism
Is Brexit just a British issue?

As the deadline for Britain’s departure from the European Union fast approaches, Brexit continues to dominate press coverage. But with a withdrawal agreement yet to be reached, the impact on trade, employment and consumer spending is still uncertain across a number of industries. The health of the leisure and hospitality sector, for example, is dramatically affected by the free movement of holidaymakers and labour from the continent into the UK: so it’s little surprise that people on both sides of the Channel want clarity on what Brexit means for them. But will this political and economic conundrum affect the leisure industry elsewhere in the world? While there may not be a direct impact on the global leisure sector, there may be some lessons to be learnt for specific countries facing similar geo-political uncertainty, either at home or in key destination markets. For example, Brexit could become the global barometer for how consumer buying behaviour responds to political disruption. In a KPMG survey on consumer attitudes towards Brexit, we found that 43% of consumers were likely to reduce their spending on non-essential items such as entertainment or eating out if a deal isn’t reached between the UK and EU. Meanwhile the majority, 61% of respondents, have reportedly reduced their spending across the board1.

A boom in bookings for travel operators?

While consumers may be spending less, not all categories need suffer. In fact, as the world becomes less certain, the role of the tour operator could become more valued. Booking a holiday is a much smoother experience when you have stable operating, regulatory and financial environments. But when airlines face challenges, travel disruption is unclear, visa requirements are changing, and medical cover in the event of an accident or illness becomes more costly and complex in the absence of EHICs (European Health Insurance Cards), package holidays may present a more appealing, hassle-free option to consumers. Under the Package Travel Regulations, customers who book a holiday through a specialist UK travel company may have the right to a full refund if the holiday can no longer be provided2. This signals a lucrative opportunity for travel operators to restore consumer confidence in travelling post-Brexit and increase sales of package holidays to meet their bottom line.

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1 KPMG poll by Hanbury Strategy Group on Consumer Attitudes Towards Brexit (2018)

By integrating the **Nunwood 6 pillars** of a great customer experience into their marketing and communications, customer service, and operations, travel companies can transform Brexit uncertainty to the benefit of their customers and business:

**Empathy**: Show your customer that you understand their concerns about travelling post-Brexit by managing communications sensitively through your customer service teams face-to-face or on the phone, and in written marketing materials on your company website, social media, and printed advertising. Reassure them and add some levity to the situation: they are about to embark on what will be a fun and relaxing holiday after all!

**Time and effort**: Save your customers time by proactively advising travellers on those tricky questions on what Brexit means for their holiday, from visa requirements, to car hire, mobile data access, and medical cover.

**Integrity**: Build trust with your customers by publically responding to difficult situations in an honest, sincere, and results-driven way that delivers value for them. Uncertainty surrounding Brexit provides the perfect opportunity to demonstrate this.

**Expectations**: Don’t neglect other areas of the customer experience by focusing too hard on Brexit. Ensure the customer experience is seamless end-to-end and exceeds their expectations, from a user-friendly booking system, to pleasant and engaging interactions on flights and in hotels, to assisting them with processing claims sensitively and speedily should things go wrong.

**Resolution**: Make the customer feel good again when their expectations aren’t being met. Offer a sincere apology, implement corrective action with urgency, and revise company policies and procedures to prevent negative interactions from re-occurring. This will also help protect your brand and reputation.

**Personalisation**: Personalise the customer experience from start to finish. Address your customers by name, use data and analytics and other business intelligence on their preferences and past experiences with your company to cater to their needs, and go the extra mile in paying them the upmost care and attention.
Hospitality at home

With Brexit looming and the UK already close to full employment, it’s going to get harder to find good people, especially for the leisure and hospitality sector – where EU nationals comprise a significant proportion of the workforce. Last year saw the largest annual fall in the number of EU workers employed in the UK since comparable records began in 1997: a decline of 132,000, leaving 2.25 million in total³.

Whether due to the weakening of the pound sterling, the feeling of no longer being welcome, or compliance barriers this trend is set to continue and there is already an upward pressure on wages. To survive, leisure companies will need to convince their talent to stay, perhaps competing with other sectors for good candidates, and also pay them more. This is driving shifts in the workplace and the most diligent leisure companies are focusing on the ‘5Ps’ to reduce their exposure to a national labour shortage:

**Productivity**: What can you do to require less labour per pound of revenue? Some restaurants, for example, are implementing technology such as food ordering apps to manage a shortfall in waiting staff.

**Participation**: How can you find untapped sources of talent? Ex-offenders, parents of young children, or the recently retired could provide loyal and flexible labour.

**Pricing**: How can companies entice consumers to pay for ‘extras’ which are less labour intensive? Hotels could offer a free drink at the bar to guests for example, instead of having their room cleaned twice a day.

**Package**: What can you offer employees to attract and retain the best talent? Consider offering benefits which are worth more to your staff than money but cost you less such as providing interest free-loans to help them with a deposit towards accommodation on the rental market.

**Purpose**: What can you do beyond monetary reward to earn employee loyalty? Whether it’s your company, the working environment, or the strength of your product or service offering, often the intangibles can be key to keeping staff happy and more likely to stay working within your business.

To learn more about the 5Ps, read our article: *Five smart responses to Brexit tightening the labour market⁴*

³ https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/articles/ukandnonukpeopleinthelabourmarket/november2018

It’s no secret that the experience economy is booming. Consumers are spending less on physical products and more on exciting and engaging experiences, and companies across the leisure sector are having to adapt quickly to meet this shift in demand. Technology is a key driver behind these changing behaviours as consumers are more digitally connected than ever, whether they’re seeking entertainment or a way to make ordinary, everyday tasks quicker and more convenient.

We’re seeing fast-movers in the leisure industry use this to their advantage. For example, some restaurants now display their menus via table top tablets. These apps also enable consumers to place their orders directly with the kitchen. While they wait, they have access to free Wi-Fi to browse the internet, and child-friendly games to keep their children distracted until their orders arrive. As a result, less time is spent flagging down waiting staff so consumers receive their food and drinks quicker, and are entertained in the meantime, leading to an enhanced customer experience and loyalty to the brand. They can also lead to increased spend per head providing opportunities to up-sell. But while these concepts may be proven in restaurants and bars, what lessons can be learnt for other sub-sectors within the leisure industry?

**Evolving the fan experience**

Many sporting venues want to maximise the returns on their vast and complex physical infrastructure, using technology to find new ways to fill more seats and encourage consumers to spend more, whether in the arena or not. With game stats and updates readily available at the click of a button on sports websites and social media channels, stadium operators are vying for a piece of the pie to capture the attention of their ‘always on’ fans. However, they must also remain competitive against luxury in-home entertainment systems luring new customers away from the comfort of their sofas, wide screen TVs, surround sound and quick access to their refrigerators with the kitchen next door.
To increase engagement and generate profitability, sports clubs, leagues and associations can use data and analytics to build a richer picture of their fans by following a three-step methodology:

1. **Categorise the customer base into different segments** according to time invested, share of wallet, and level of engagement

2. **Target their needs** depending on how and when customers engage with the sport – whether it’s a non-match day or match day – and whether in the stadium, at home or another venue

3. **Leverage these insights** to deliver a personalised experience to the right customer at the right time to increase engagement and generate value for the customer and your business

### Segmenting your customer base

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<tr>
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<th>Casual</th>
<th>Fan</th>
<th>Committed</th>
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<td><strong>Time invested</strong></td>
<td>Rarely invests in club activities</td>
<td>Invests in some club activities</td>
<td>Invests in club activities</td>
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<td><strong>Share of wallet</strong></td>
<td>Minimum share of wallet to club</td>
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<td>Spends some share of wallet</td>
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<td><strong>Level of engagement</strong></td>
<td>Little to no engagement</td>
<td>Inconsistent engagement</td>
<td>Some levels of engagement</td>
<td>High levels of engagement</td>
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Making the most of match-days

Connected customers: Smart stadiums need the right digital infrastructure in place. New advances in technology have shifted the way that content is consumed with an increasing number of fans using mobile devices as their primary entertainment channels. Fans are also no longer passive viewers. Instead, many supporters share their opinions with other fans in real time during games, and they expect full uninterrupted connectivity in stadiums to facilitate this. Service and network availability must be continuous throughout.

Convenience is king: Smart stadiums can also help sporting venues maximise revenue and reduce operating costs by using technology that enables spectators to order food, drinks and merchandise straight to their seats, or alerting them when concessions stands are less crowded, so they can take receipt of their goods more quickly.

Smart loyalty: Smart stadiums can collect and analyse data from every touch point of the fan journey to personalise their customer experience. For example, information on the number of tickets they usually purchase at any one time, who they attend games with – whether friends, partners, siblings, or alone – what snacks they usually buy before a match or during halftime etc. can be fed into smart loyalty programmes that reward customers on their basis of their previous interactions with the venue and personal preferences. Stadium operators may also extend their loyalty schemes beyond sponsors to local businesses. They could partner up with nearby retail outlets, restaurant groups, hotels and other accommodation providers to incentivise consumers to buy more.

Safety and security: Smart stadiums can optimise data captured by cameras and sensors and provide intelligence to security operatives on-the-ground in real time to monitor and pre-empt disruption on the premises. New technology could also enable them to share this data with local police services instantaneously, enabling them to collaborate and act quickly should problematic situations arise. This would ensure better safety for fans, and thereby enhance their experience and likelihood of returning to stadium.

In and out: Smart stadiums could encourage fans to ‘opt-in’ to a tailored app alerting them to changes in travel conditions, congestion on the road, adverse weather etc. to make their journey back home after a match as smooth as possible.

Never forgetting non-match days

Although live games remain the central focus for most fans’ experiences, there are a wide variety of touchpoints beyond live games that contribute to the forming meaningful relationships with their fans. These include gaming, fantasy sports and connected merchandise. Personal experiences must be provided in each of these areas to reach and engage different, distinct segments of fans with varying preferences and expectations.
Levelling the playing field between ‘tech giants’ and ‘bricks and mortar’
Many operators in the leisure industry have long relied upon bricks and mortar to deliver the ‘experience’ demanded by consumers: think restaurants, bars, hotels, entertainment and sporting venues. Traditionally the ownership of physical infrastructure has been at the heart of their business models as the sole channel they use to provide goods and services to their customers.

However recently, technology firms have started to cement their place across different areas in the leisure sector supply chain. This might be as a consolidator who buys and sells hotel room bookings or flight tickets to consumers at discounted prices (for example, online search and booking platforms), as disrupters are revolutionising the way that consumers enjoy the leisure experience. For instance, we’ve seen a proliferation of food delivery companies who bring gourmet meals directly to consumers’ doors reducing the need to visit fine-dining restaurants, or technology solutions embracing the evolving habits of today’s digital natives: a number of pubs and bars now enable their customers to make orders and settle the tab through mobile devices.

Developments in technology are producing many benefits for the leisure sector, but the challenge now is to ensure a fair balance between emerging technology giants and bricks and mortar companies who are competing for customers. Globally, policy makers are focusing on recreating a level playing field.

With tax policy, for example, it’s possible that many historical, legislative frameworks across the world are no longer fit for purpose. They struggle to keep pace with technological advances in many different countries. However, global initiatives are starting to address this.

**The source of the shifts**

Across a range of industries, it’s clear that consumers want services and experiences that are personalised to their needs, that come from a trusted provider, are frictionless in terms of time and effort involved, and deliver against their expectations – and it’s the unencumbered technology giants that we’re seeing respond to consumer demands with speed and agility.

For example, online travel agents (OTAs) offer customers tailored choices at the click of a button, while scooping up sales commission from hotel operators using their platform to market their rooms. But take this one step further, and new online rental platforms are actually sourcing accommodation from the public, acting as the middle man in the leisure supply chain. Their market power is very strong as they’re able to meet the demand from both ends of the supply chain – consumers seeking more flexibility and choice in holiday lodgings, and property owners looking to generate income, but who pays the price?
Are locals losing out?

From the customer’s perspective, wider access to cheaper accommodation in less ‘touristy’ districts within popular city destinations, can grant them the ‘authentic’ and cost-effective holiday experience they’re after. Overcrowding may decrease in busy hotspots where traditional hoteliers are often based, and instead new business directed to residential areas that had previously been overlooked. However, this shift hasn’t been welcomed by all. For example, there are concerns that the rapid expansion of short term lets, particularly in neighbourhoods where housing is already in tight supply, is driving rental costs for long-term accommodation to unaffordable rates. This may ultimately price local people out of their homes.

Over-tourism can also put pressure on public services like transport and public utilities, leading to increased congestion, pollution and other damaging environmental and social effects on communities. Therefore, some governments are reforming regulation to correct for these market externalities, banning the use of some tech companies outright or placing restrictions on the way they operate. However, tax levies can also be designed to create a more even balance between consumers, providers, technology giants and bricks and mortar leisure companies.
Levelling the playing field

**Digital Services Tax:** Whilst it’s still early days, we have international blocks like the OECD and the EU, and also individual territories (UK, India, Australia, etc.) looking at implementing different forms of Digital Services Tax, all following a similar theme of aligning the tax burden with both the location of where the user is located as well as the location of the technology platform. We can see a strong socio-economic justification for such a measure, i.e. tax revenues generated by technology businesses selling holiday accommodation in a particular location will be used to fund the upkeep of public infrastructure, such as maintaining roads or cleaning the beaches, in that location.

**International taxation:** Following the OECD’s Base Erosion and Profiting Shifting action plan, the fundamentals of international taxation are now strongly aligned towards taxing businesses in the locations where value is being added in the supply chain, rather than where businesses are headquartered or, especially relevant to the technology businesses, own intellectual property. The direction of travel here is to rebalance the perceived unfairness, where technology companies seem to have had historic freedom to organise themselves in a way where they are not seen to be paying their ‘fair share’.

**Structures and buildings allowances:** We have seen recent changes to tax policy in the UK, with the introduction of ‘structures and buildings’ allowances, and in the 2018 US tax reform with an enhancement of tax depreciation on capital expenditure. Such reforms are designed with a very clear intent; to encourage investment in physical infrastructure, especially new commercial buildings and structures. This may incentivise bricks and mortar leisure companies to invest in building physical assets, and enable them to remain competitive with digital leisure companies who don’t own any physical assets outright.
What does the end of PASPA mean for the global gaming industry?

Taking it back to basics – an overview of PASPA

The repeal of the Professional and Amateur Sports Protection Act (PASPA) enables states in the US to legalise gambling. Before the act was reversed in May 2018, there were only two states in the United States where it was legal for operators to offer sports betting to varying degrees: Nevada and Delaware. PASPA granted these areas in an exemption prior to its enactment as they already had sports betting legislation in play.
By the end of 2018, eight states have gone down the same path, with others looking to follow suit. These are New Jersey, Pennsylvania, West Virginia, Mississippi, Rhode Island and New Mexico, with New York and Arkansas also making moves. It is predicted that during the course of 2019, 33 states will consider sports betting bills in 2019.

**iGaming and mobile sports also allowed to play**

The states that have legalised sports gambling also have varying degrees of legislation regarding iGaming and mobile sports betting. In general, deregulation is providing more opportunities for European operators and sportsbook platform providers to mitigate their reliance on the more mature UK market. At the same time, US casino operators are now entering joint ventures with iGaming companies to capture a greater share of regulated revenues, whilst protecting against future downsides stemming from online migration.

While this intersection of the US casino and iGaming markets is providing opportunities, challenges remain for the companies looking to participate, including which states will deregulate and when, as well as the various regulatory and compliance considerations for each state.

Recently, the Department of Justice issued an opinion which reversed a 2011 opinion that the Interstate Wire Act of 1961 only pertained to sports gambling. This now creates potential issues for online lottery, poker, and casino games. While sports gambling initiatives within each state have already taken this into consideration, this issue is still unresolved, so additional effort is needed to navigate the resulting issues. Litigation has already been filed to reverse this new opinion.

**So what opportunities exist?**

The regulatory changes open up opportunities for many companies in the US gaming landscape to transform, including online marketing affiliates, payment solution providers, technology platforms, eSports, and other adjacent businesses. The US sports betting market is predicted to grow to $648million in revenue in 2019. Looking further forward, GamblingCompliance projects the market size to grow to $3.1billion in annual revenue by 2023. However, there are many different longer-term forecasts available. There’s no doubt that there is a lot of action to capitalise on, but as well as these opportunities, there’s also still some barriers to break through.

As the gaming industry ventures somewhat down the road of the ‘unknown’, there lies opportunity for existing US operators and other overseas operators looking to expand there. In our 2018 edition of *Global Leisure Perspectives* – before the US Supreme Court overturned PASPA – we considered five key steps that gaming operators potentially looking to expand in American markets should consider. With 25 states expected to have legalised sports betting by 2023, and others watching from the sidelines and considering options, what trends have we seen unfold?

5,6,8  https://gamblingcompliance.com/us-sports-betting
Countries are waking up, and states are cashing in

Total stakes in the regulated US sports betting market reached close to $1 billion in December 2018. Of these, nearly a third (c.$330million) were stakes placed online or through mobile betting in the state of New Jersey alone. While this is small in relation to stakes observed in mature markets such as the UK (who recorded annual stakes of c.$35billion in 2018), it reiterates the potential for the US market. It still remains to be seen how long it will take to capture the majority of stakes being made by US customers with offshore, illegal operators.

Outside of the US we’re also seeing other countries, such as Brazil and Argentina, wake up to the opportunities of an untapped market. Although the regulatory framework is unclear, the Ministry of Finance is tasked with regulating online and land-based sports betting. In Argentina, the province of Buenos Aires, which makes up close to 50% of the population, has recently passed legislation to regulate online betting and gaming too.

Navigating fees and taxes still remains a challenge for the sector, with the location of trading having implications on the fees and taxes involved. Licences to offer online gaming in Pennsylvania across three product categories (slots, table games and poker) were initially offered at a cost of $10 million, with any operator now looking to enter paying $4 million per product. These substantial fees were in addition to gross gaming revenue taxes reaching up to 54% for online slot games. This structure still attracted 11 operators to obtain online gaming licences. Further, those applying for sports betting licences have paid an additional $10 million per licence, and will pay a gross gaming revenue tax of 36% – higher than nearly all regulated jurisdictions in Europe. Online licence fees alone have provided over $130 million to the state.

As we noted in our previous update, each state will be different and a deep understanding of each state’s regulation and history of existing gambling activities will be crucial.

Living in a fantasy world

We have seen that the preferred route of entry into the sports betting market is the joint venture – land-based casino companies partnering with technology providers or UK sports betting businesses. The opportunity for DFS (daily fantasy sports) brands to move into sports betting seems to be a successful entry model so far. A recent venture between DraftKings and Caesars has established a multi-year partnership for DraftKings to open up its online sports betting and casino gambling offering to more US states. Caesars will receive an equity stake in DraftKings and a share of the online fantasy sports and betting provider’s revenue across the states where the partnership is in operation.

And it’s not only DraftKings that have looked to partner to strengthen their penetration into the US market. FanDuel was acquired by Paddy Power Betfair (PBB) with a view to target the opportunities. With a wealth of customer data behind them, FanDuel and DraftKings are off to a good head start. Jointly, DraftKings and FanDuel are predicted to own a 74% share of New Jersey’s online betting market, meaning they may not be living in a fantasy world after all!
Protecting integrity whilst generating revenue

In regards to the integrity of the sport, we’ve witnessed a number of leagues signing deals with companies. We’re now seeing a shift from protecting the integrity of the sport to revenue generation. With this, it’s still important that sports leagues give reassurance that match fixing will not become commonplace, so collaborations like this are a step in the right direction to ensure communication is kept open and honest.

Staying grounded

With a booming industry and deregulation in the US market, it’s important for operators to consider their role in knowing their customers and protecting the vulnerable, as well as seeking market profitability. Responsible operations and robust systems and processes are integral to help identify vulnerable customers early on, and plan how to respond. A complex set of behaviours and factors underpin problem gaming which are crucial to get under the skin of. Being in control is not only the responsibility of the operator, but ensures that gaming can remain enjoyable for everyone.

Using data and analytics to gain a competitive advantage
With consumers choosing to travel more, the leisure industry is under increasing pressure to deliver the very best experience for their customers, most of which exhibit very different travel tastes and preferences. Whether a budget airline, a luxury niche tour operator, a destination or a resort, economic value is maximised when customer expectations and the delivered experience are in alignment.

If a customer’s expectations are met or exceeded they are much more likely to develop a long-term relationship with a service provider or destination rather than a single, finite experience, and so their Customer Lifetime Value (CLV), i.e. how much each customer will spend over their lifetime, will be higher. The return on an entity’s investment (ROI), on marketing for example, will also increase when they know more about what their customer likes and dislikes. Their marketing expenditure will be targeted much more efficiently in terms of what to market, who to market to, where, when and using what marketing medium.

**Getting personal**

Personalisation and loyalty are key differentiators that companies in the travel industry need to consider to make them a favourite amongst their customers in an increasingly competitive marketplace. With travel becoming more accessible and consumers prioritising experiences over physical purchases, the world really is their oyster. But with a data overload, cutting through this complexity to derive actual meaning from data is no easy feat. There is a lack of data and analytics supporting decision making in the industry today. Turning this data into actionable insights is really where value can be unlocked.

**Clearing immigration**

‘What is the purpose of your trip?’, ‘Where are you travelling from?’, ‘How long do you intend to stay?’, ‘Where will you be staying?’, ‘Have you visited before?’; ‘What is your occupation?’, ‘How old are you?’. These are only a selection of the questions that travellers often have to provide when completing international landing cards before touching down on the airport runway and clearing immigration. Although this information is crucial for immigration and security reasons, the additional insight that could also be unlocked from landing cards (whether paper or digital) is currently underestimated.

**How does an organisation achieve this competitive advantage?**

Data is at the heart of getting to know a customer. The better you know your customer, the greater your competitive advantage. It can be argued that leisure businesses, brands and destinations now need to understand their customers better than the customer knows themselves. Customer data isn’t only valuable for businesses operating in the leisure sector, but also for countries and governments who rely heavily on inbound tourism. How can data drive holistic decision-making in the leisure sector to ensure customers are happy which inevitably leads to full plane seats, occupied hotel rooms and sold-out excursions?
Turning data into actionable insights

The Jones family are departing on their annual two week family holiday to the Turks and Caicos Islands in the Caribbean. Before even landing at their destination, they are asked if they would like to provide information about their stay that can enhance their experience and be valuable to both the host country and local leisure businesses.

What is the purpose of your trip?
The Jones family are visiting the Caribbean to learn how to scuba dive together as a family. They like to plan ahead and so they select the ‘opt in’ option on the landing card to volunteer the purpose of their trip.

Actionable insight: Understanding the purpose of the visit and knowing what a tourist desires from their trip allows the host country and leisure businesses to inform the tourist of relevant options in advance. In doing so this increases the likelihood that they deliver the experience expected. This drives greater loyalty, higher CLV and ROI.

Where are you travelling from?
The Jones family are travelling from the United Kingdom with another two families whom they are friends with. They are flying from Newcastle Airport.

Actionable insight: By knowing the country of origin of travellers, a country can define their target markets by specific locations and increase their marketing efforts in that area. They can identify if there is a particular purpose of visit from a particular location and age group and hence tailor their marketing strategy accordingly. They can also monitor increases and decreases in travellers from a certain location to determine the likely level of demand during holiday seasons, and make informed decisions about the frequency of flights operating in and out of those airports.

Where will you be staying?
As the three families have travelled together, they are staying in a large villa with a shared pool.

Actionable insight: By understanding the type of accommodation sought after, the host country and accommodation provider can understand where investment may be required to develop infrastructure. It can also help tourist boards and accommodation providers understand what particular demographic groups prefer hotels, villas or apartments, and help to inform decisions about where to invest, merge or divest.
How long do you intend to stay?
The Jones family and their friends are staying for two weeks. They will stay in the same villa for the duration of their visit.

Actionable insight: In general terms the longer a trip, the higher a tourist's average spend although this can vary greatly from tourist to tourist, depending on demographics, personal interests and other factors. The longer term visitor is also generally more likely to engage in tourist related activities at some point during their visit such as visitor attractions, sports activities etc.

Have you visited before?
The Jones family are frequent travellers to the Caribbean. Their teenage children have also started to travel independently of their parents with friends and partners.

Actionable insight: It is the return visitor that destinations, airlines, hoteliers and service providers are primarily interested in because their CLV is higher and the ROI is higher. A country in search of a sustainable tourism industry also wants to attract tourists that share the country’s vision and values. A tourist is more likely to return to a country or destination that has values consistent with their own. For example, the Jones family enjoy environmental friendly pursuits like kite boarding and so will be attracted to destinations that actively take steps to protect the environment.

Data-driven capabilities to transform leisure businesses

Tourists often choose to provide a trail of useful information about their habits and preferences from booking to check-out and beyond. Over the course of their lifetime, this data can provide valuable insights for leisure businesses, but only if harnessed correctly. The use of big data and analytics isn’t only confined to defining a marketing strategy. It can have many applications across the leisure industry such as accelerating decisions using artificial intelligence, improving operations and efficiency through intelligent automation, aligning interests of tourists, destinations and service providers and ensuring a sustainable tourism industry by increasing the likelihood that a tourist’s expectations are met or exceeded.

If you have business interests in the tourism industry and you want to know more about how you may be able to use data and analytics to gain a competitive advantage, please contact Gary Brough for further perspectives.

For further thinking on ‘customer’, read KPMG’s Me, My Life, My Wallet 17

Learnings from around the globe - India’s approach to winning the ‘tech-friendly’ traveller
The Indian tourism and hospitality industry has emerged as one of the key drivers of growth among the services sector in India, with total contribution by the travel and tourism sector to India’s GDP expected to increase from Rs 15.24 trillion (US$ 234.03 billion) in 2017 to Rs 32.05 trillion (US$ 492.21 billion) in 2028\(^{18}\). India offers a large market of a diverse portfolio of niche tourism including cruises, adventure, medical, wellness, sports, Meetings, Incentives, Conferences and Exhibitions (MICE), eco-tourism, film, rural and religious tourism. With technology becoming an integral part of a traveller’s DNA, whether for personal or business purposes, how is India ensuring that its rich cultural heritage, and places of natural beauty spread across the country are attracting travellers from near and far?

India’s initiatives to drive growth from tourism:

The Indian government is working to achieve 1% share of the world’s international tourist arrivals by 2020, and 2% share by 2025\(^{19}\). To achieve this, a number of initiatives have been launched:

- **Branding and marketing:** The launch of several branding and marketing initiatives by the Indian government such as ‘Incredible India!’ and ‘Athiti Devo Bhava’ has provided a focused impetus to growth.

- **New visa categories:** The release of a new visa category – the ‘medical visa’ or ‘M visa’ – to encourage medical tourism in the country.

- **Investment in technology:** ‘Incredible India! 2.0’ campaign was launched in September 2017. In September 2018, the Indian government launched the ‘Incredible India Mobile App’ to assist the traveller and showcase major experiences for travelling.

- **Development of infrastructure:** Under the Swadesh Darshan Scheme, 13 thematic circuits were selected for the development of tourism infrastructure to promote international and domestic tourism across the country.

- **Tourist attractions:** In October 2018, Statue of Sardar Vallabhbhai Patel, also known as ‘Statue of Unity’, was inaugurated as a tourist attraction. It is the tallest statue in the world standing at a height of 182 metres. It is expected to boost the tourism sector in the country and put India on the world tourism map.


\(^{19}\) [http://pib.nic.in/newsprint/PrintRelease.aspx?reid=178367](http://pib.nic.in/newsprint/PrintRelease.aspx?reid=178367)
Innovation is driving consumer behaviour

For countries around the world, technology advancements are heavily shaping the leisure industry. And India is no different – innovations advanced by big data and analytics, artificial intelligence, machine learning and social media are changing consumers’ expectations of the leisure industry, from research and planning, to booking, payment, obtaining a visa, currency exchange, travel and even submission of claims and reimbursements for business travellers.

A global online survey conducted in August 2017 polling 11,000 across 19 countries termed Indians as the most digitally-savvy travellers worldwide\textsuperscript{20}. So what are the key characteristics of the tech-friendly Indian traveller?’


Key characteristics of the tech-friendly Indian traveller

- **Searches and books online**: Most travellers go online, and 67% even use voice search while researching for a trip.

- **Mobile-friendly**: 71% use smartphones for research and booking, and 82% would appreciate digital boarding passes and e-tickets for convenience.

- **Avid social media user**: 87% use videos and photos posted by friends as part of their travel research, and 83% say being able to stay in touch is most important while travelling.

- **Seeks discounts**: 85% use price comparison sites to look for deals, and 58% agree spending considerable time to find the best price.

- **Values online reviews**: 91% use review sites, though 52% are wary of their trustworthiness.

- **Wants free Wi-Fi**: 75% choose hotels that do not charge for Wi-Fi.

How to win the tech-savvy traveller

**Market to the modern-day traveller:** Digital technologies have penetrated deep into the personal space of travellers; it is therefore extremely crucial for businesses to be where their customers are now. Consider your marketing investment – how much emphasis does your business strategy focus on metasearch engines, SEO (search engine optimisation), SEM (search engine metadata) and social media?

**Personalise services and products:** The concept of personalisation of products and services has always been around, however, the advent of advanced technology including big data analytics and artificial intelligence has unravelled information that was not readily available. Think about your use of data when sending offers to customers, and providing a personalised experience. Whether you’re an OTA or hotel chain, have you considered the end-to-end personalisation at all stages of the customer experience?

**Push towards direct bookings:** Hotel chains are increasingly encouraging travellers to book directly at company-owned platforms to build loyalty with customers and avoid commissions charged by intermediaries such as OTAs. How are you competing with intermediates to encourage direct bookings? Consider your offers, ad targeting using SEO and social media strategy to drive loyalty.

Read more about loyalty here: https://assets.kpmg/content/dam/kpmg/uk/pdf/2017/09/leisure-perspectives-report.pdf

**Automate operations:** Automation has multiple applications across the leisure industry ranging from automatic e-mail confirmation of bookings to using robotics for marketing and customer support. How much of your operations are automated? Consider inventory checks, housekeeping tasks, optimisation of energy consumption, customer support and use of smartphones.

**Leverage User Generated Content (UGC):** Peer-generated content is considered highly valuable by consumers when making travel-related decisions as it provides an objective view about a company’s products, services and other aspects such as its customer service quality. What does your UGC say about your brand? How can you build a UGC marketing strategy that evaluates the benefits (but also considers the risks involved) to help customers make informed decisions?

**Partner with the sharing-economy players:** Sharing-economy – the peer-to-peer activity of sharing goods and services – has brought about a significant change in the way people access goods and services. It is transforming the way that people travel, with their technology-driven mobile platforms and convenience of use. What strategic partnerships do you currently have in place across the leisure ecosystem? How are these driving value for your business?

Read more from KPMG in India and FICCI on how to win the tech-friendly Indian traveller.

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Does the global wellness economy protect vulnerable consumers?

As consumer preferences and values change, issues about the protection of consumers, the environment, and society at large, have become of increasing concern, especially with the increased media attention on sustainable farming and manufacturing, plastic pollution, and health and wellbeing, for example.

Consumers want to know what businesses are doing to address these areas and improve them. They’re seeking greater transparency on the economic, environmental and societal impact caused by the companies they interact with, which can influence which brands they remain loyal to, and which ones they stop buying from altogether.

However, for food and drinks brands, retailers, and leisure operators, finding new ways to appeal to the ‘conscious’ consumer can add unprecedented challenge and complexity. From implementing new marketing strategies to reforming business models, businesses are constantly fighting for a share of the market.
**Healthy habits**

At one end of the scale, we’re seeing consumers increasingly focused on their overall health and wellness, with restaurants launching vegan menus and lower calorie options to demonstrate that they share the same awareness.

Similarly, more and more health-conscious individuals are making efforts to incorporate fitness into their daily regimens. The global fitness industry has shown compound annual growth of 4.8% between 2015 and 2017, and the thriving leisure and wellness industry, valued at $4.2 trillion, demonstrated a compound annual growth rate of approximately 6.4% during the same time period.

Taking this one step further, ‘wellness tourism’ has also established itself as a key sub-segment of the travel market, registering a faster increase in demand than the tourism industry overall. This is driven by the increasing number of wellness-minded consumers, who are extending the same approach to their health from their everyday lifestyles to their holidays.

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*Sector definition changed from 2015-2017 – No data for growth rate
### Overview of the $639 billion global wellness tourism industry (2017)

<table>
<thead>
<tr>
<th>Category</th>
<th>Cost</th>
<th>Subcategories</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-country transport</td>
<td>$109.9 b</td>
<td>Airlines, rental cars, public transit, trains, taxis</td>
</tr>
<tr>
<td>Other services</td>
<td>$89.5 b</td>
<td>Telecom, insurance, travel agencies, concierges</td>
</tr>
<tr>
<td>Lodging</td>
<td>$130.5 b</td>
<td>Destination spas, Health resorts, Ashrams, Retreats</td>
</tr>
<tr>
<td>Food &amp; beverage</td>
<td>$111.5 b</td>
<td>Spa cuisine, Healthy cuisine, Organic cuisine</td>
</tr>
<tr>
<td>Shopping</td>
<td>$98.3 b</td>
<td>Fitness wear, Spa products, Healthy foods, Vitamins</td>
</tr>
<tr>
<td>Activities &amp; excursions</td>
<td>$99.7 b</td>
<td>Spas, Bathing, Fitness, Meditation, Life coaching</td>
</tr>
</tbody>
</table>

**Source:** Global Wellness Institute – Global Wellness Economy Monitor 2018, Capital IQ, Thomson Reuters (2018)

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### Worlds divided

On the contrary, not every consumer around the globe has the same level of access to the wellness market. Generally, those with a greater disposable income are the first-movers in prioritising and paying a premium for their wellbeing.

However, there are pockets of society who are perhaps more vulnerable in safeguarding their health and wellbeing. In the UK, for example, policy makers have turned their attention towards developing regulation to protect public health with measures such as Minimum Unit Pricing (MUP) in Scotland to combat excessive alcohol consumption, to the Sugar Levy in response to the obesity crisis. Other countries around the globe may follow suit if these polices are shown to influence consumers to make ‘healthier’ choices.

Increased consumer awareness and public policies are also having an effect on the way that leisure businesses operate, with many having to rethink their strategies to protect vulnerable consumers, ensure regulatory compliance, and remain profitable. We’re now seeing more products being branded as ‘healthy’, ‘eco-friendly’, ‘fair-trade’ or ‘cruelty free’ stacked on shop shelves. Some restaurants are displaying calories counts on their menu, and offering consumers more nutrient-filled options, and many companies have also pledged to increase their use of renewable or recyclable materials for their food packaging, committing to sustainability targets over the next 5-10 years.

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23  [https://www.ft.com/content/61629224-fc9f-11e7-9b32-d7d59aace167](https://www.ft.com/content/61629224-fc9f-11e7-9b32-d7d59aace167)
Spotlight on the UK: Government policy and campaigns to protect ‘vulnerable’ consumers

**Soft drinks industry levy**

From April 2018, manufacturers now must pay a levy on high-sugar drinks they sell. The treasury have forecast that it would raise more than £500m a year\(^2\). In response, since the introduction of the levy, a number of brands have reduced the sugar content in their drinks. With consumer preferences changing, leisure operators should also consider the sugar content that passes through the supply chain and onto the plates of their customers.

**One You campaign**

Under the ‘One You’ campaign, Public Health England has set out new calorie guidelines to cut meal sizes. Britons are being encouraged to stick to 400 calories at breakfast, and 600 calories for both lunch and dinner. It is recognised that when dining out-of-home, people may consume more calories than when at home. We’re starting to see some leisure operators increase the transparency of the calories in their foods, displaying them on menus, to help achieve this.

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\(^2\) https://www.bbc.co.uk/news/health-43659124

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**Opening up the debate**

Doing what’s right for society, the consumer and the planet is important to meet consumer demand, and regulatory obligations, but it doesn’t always add up when it comes to profitability for a business. It can’t be ignored that at the core, consumers in the leisure sector want an excellent customer experience and at the right price, which is putting strain on leisure business models as they’re stretched in multiple directions. But to what extent should businesses claim responsibility?

Whether you believe that governments should seek to influence consumer behaviours through laws and legislations, or that leisure operators should be more socially responsible in their offerings to customers, it’s important to consider the role that leisure operators have to play in protecting ‘vulnerable’ consumers. While leisure operators may feel constrained by new consumer and government campaigns, by rethinking operations they may also have a lot to gain.

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**Global Leisure & Wellness deal count**

<table>
<thead>
<tr>
<th>Q3 2017</th>
<th>Q2 2018</th>
<th>Q3 2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>189</td>
<td>192</td>
<td>202</td>
</tr>
</tbody>
</table>

L&W deal activity in the US increased by ~16%, with 73 deals in Q3’18, compared to 63 deals in Q3’17.

The US contributed 37% to the global deal volume in Q3’18 compared to 33% in Q3’17.

Are competing global hotel brands stronger together?
In today’s dynamic hotels market, the competition for new guests and repeat customers has intensified. From coastal villas to boutique city hotels to countryside cabins and new technology platforms facilitating easy access to rental properties for short-term stays, the types of accommodation available to holidaymakers around the globe has rapidly multiplied. To manage the disruption and remain competitive against new entrants, brand acquisition has become a key growth strategy for hotel operators. In fact, the flurry of M&A activity in the sector is underpinned by a multitude of operational and tactical benefits, enabling operators to respond to changing consumer preferences and new technology more effectively, and re-capture market share.

Going global

We’re seeing hotel groups build scale and distribution by consolidating with other brands. This is enabling them to increase their global footprint, gain a foothold in new geographical locations and deeper penetration into existing high-revenue generating markets. The Americas make up the largest share of buyers, having represented the strongest source of market capital over the past four years, accounting for almost 80% of all transactions between 2014 and 2018\(^{25}\). This trend is set to continue as many hotel chains seek to expand their portfolios further afield. For example, in Europe there is still a significant proportion of privately run hotels and low brand penetration, indicating considerable potential for international hotel chains to gain market share.

The stability of the hotels markets in Germany and France in particular, have attracted high interest from developers who are eager to invest in real estate, which creates further opportunities for hotel operators eager to expand. EMEA accounted for 37% of all M&A transactions in the last four years\(^{26}\).

Two become one

When two or more hotels consolidate, the integration of their operating platforms also presents several advantages. For example, outdated, legacy IT systems may be replaced with more sophisticated and robust room booking systems adopted from the more technologically-advanced entity. Investing in digital solutions is an important part of back office transformation for hotels that can improve customer-facing processes (such as room or restaurant reservations, spa bookings etc.), leading to greater operational efficiencies and reduced overhead costs.

The increase in market share resulting from a merger can also strengthen the buying power of the newly expanded hotel group. Its increased scale may place it in a better position to conduct commercial negotiations more effectively – for example, with travel agents and online consolidators who market the hotel rooms to consumers, and receive commission on the revenue generated from room sales. Having a higher market share can allow hotel operators to set more competitive rates with third party platforms and generate higher revenue and profit.

\(^{25,26}\) Internal RCA KPMG research (2019)
The marketing mix

Portfolio optimisation also remains central to a successful deal. As hotels acquire more brands, they can tap into a larger customer base including segments of the market they may not have been able to access before due to lack of venue space or facilities. The new ownership of physical infrastructure and equipment such as conference halls which appeal to business and MICE travellers (Meetings, Incentives, Conferences and Exhibitions), reception rooms for weddings or religious festivals, or spas and gym facilities to cater to the growing number of health-conscious, ‘wellness travellers’ across the globe, can allow hotel groups to capitalise on a variety of customer propositions. More importantly, they can also expand into new untapped segments offering luxury, or budget-friendly accommodation.

These factors can be used to improve loyalty programmes, offering consumers a greater mix of rewards that are more closely aligned with their needs. With greater access to customer data through multiple touchpoints, sophisticated data and analytics software, and distribution platforms such as social media, M&A activity can be incredibly value-adding for hotel groups. This can provide them with more channels to get in front of their target customers, capture their attention from competitors, and satisfy their needs profitably.

Starting small

As hotel operators continue to consolidate with high growth brands, the share of branded properties globally is likely to increase, making it difficult for smaller, unbranded, or older hotels to compete. However, there are smaller hotel chains, which have expanded organically or through smaller acquisitions from privately run hotels. They are now in a position where they need to decide on the best way to get additional capital in order to compete, either through IPO (initial public offering) or securing an equity partner. However, given the momentum of the market, hotel developers and investors will find it increasingly easier to find financially stronger operating partners, thus limiting investment risk, which may work to the advantage of smaller hotel groups – meaning everyone has their place in the market.
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