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Experience is everything

The UK leisure consumer

June 2019

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A note on the methodology

The Deloitte Leisure Consumer is based on a consumer survey carried out by an independent market research agency, Yougov, on behalf of Deloitte. This survey was conducted online with a nationally representative sample of around 3,000 UK adults aged 18+, with the Q1 2019 wave taking place in 22-26 March 2019.

Some of the figures in this research show the results in the form of a net balance. This means that in a survey of 100 respondents, assuming that 30 reported they are spending more, 20 reported no change, and 50 reported they are spending less, the net balance is calculated by subtracting the number who spent less from the number who reported to have spent more, i.e. 30-50=-20. This means that on balance 20% of consumers have spent less rather than more.

Foreword

Welcome to our latest report on the UK leisure consumer. It is part of the series that began in 2016 with our *Passion for leisure* report outlining how changes in consumer behaviour and economic fundamentals have led to the rise of the leisure consumer.

2016 was an important year for the UK economy as well as the consumer. The National living wage was introduced and UK interest rates reached a new low of 0.25 per cent. While both positively impacted the spending power of consumers, the former added to the cost pressures of leisure businesses. And of course, the momentous UK referendum on leaving the EU also took place in June 2016, only days before our report was published. The result of the vote raised questions around the impact it might have on consumer confidence and spending, but also operating costs for leisure businesses, due to the falling value of sterling.

In this new report we look back at how the conditions for, and the behaviour of, the leisure consumer has changed over the last three years. Most importantly, we also look at how consumers feel now about their financial prospects up until the last quarter of 2019 and the impact that might have on their spending on leisure.

We believe leisure spending continues to be a strong indicator of the prospects for the UK economy. Despite a sustained period of political uncertainty following the EU referendum, consumers have shown that their passion for leisure has continued over the last three years with their reported net spend on leisure remaining fairly stable. Nonetheless, consumers' budgets have been under more pressure and with less disposable income consumers have had to re-evaluate how they allocate that discretionary spending. This has led them to favour the big-ticket leisure categories.

It can be argued that this focus on larger expenditures has been supported by wider behavioural changes. As the tendency of consumers to document and share their lives digitally and on social media has grown, experiences have become a new 'currency' in their social interactions: a way to distinguish themselves and obtain a higher status. Their new emphasis is on augmenting their lives with unique experiences rather than things.

The leisure sector also continues to be at the forefront of the sharing economy, which is changing how consumers perceive leisure and spend on it. For example, growth in ride-sharing, takeaway food offerings and on-demand entertainment means that in-home leisure is increasing. Casual dining businesses are adapting to this by offering consumers more opportunities to enjoy restaurant quality meals at home.

Consumers' commitment to the future of the high street relies on its ability to bring physical retail and experiential leisure closer together. There have been a range of attempts to make this happen but there is still more to do. Businesses that have continued to flourish on high streets may be the ones that have managed to get that balance right.

In this report we also provide some insight into the trends affecting the key sub-sectors of the UK leisure market. We hope it provides insight that enhances your understanding of the opportunities and challenges in your sector, and we welcome your feedback.



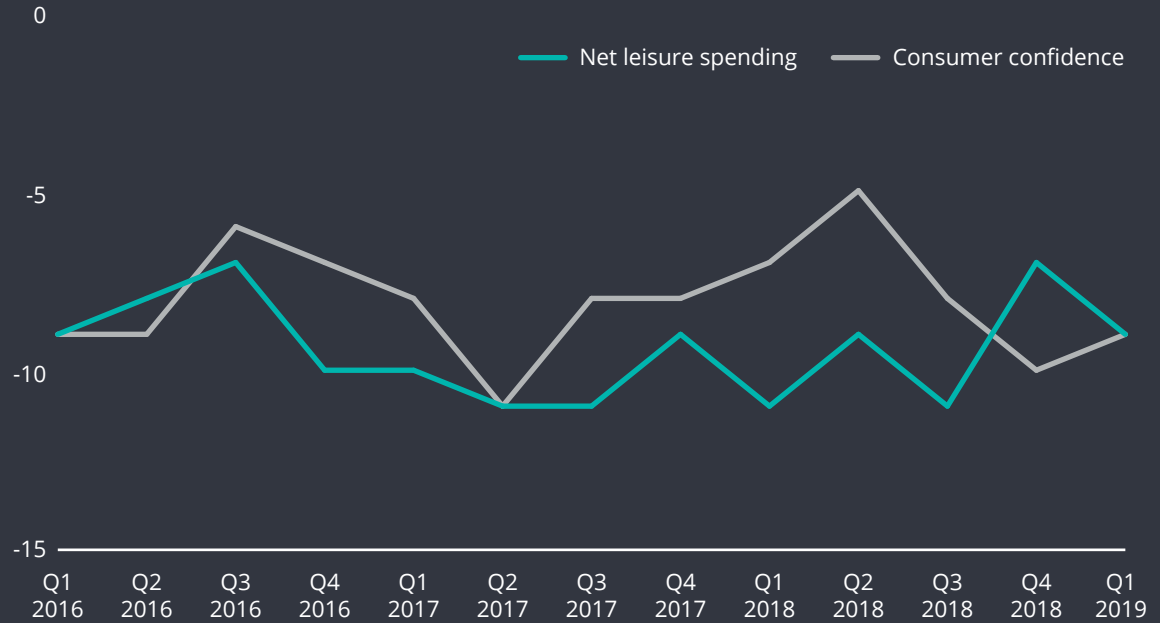
Simon Oaten
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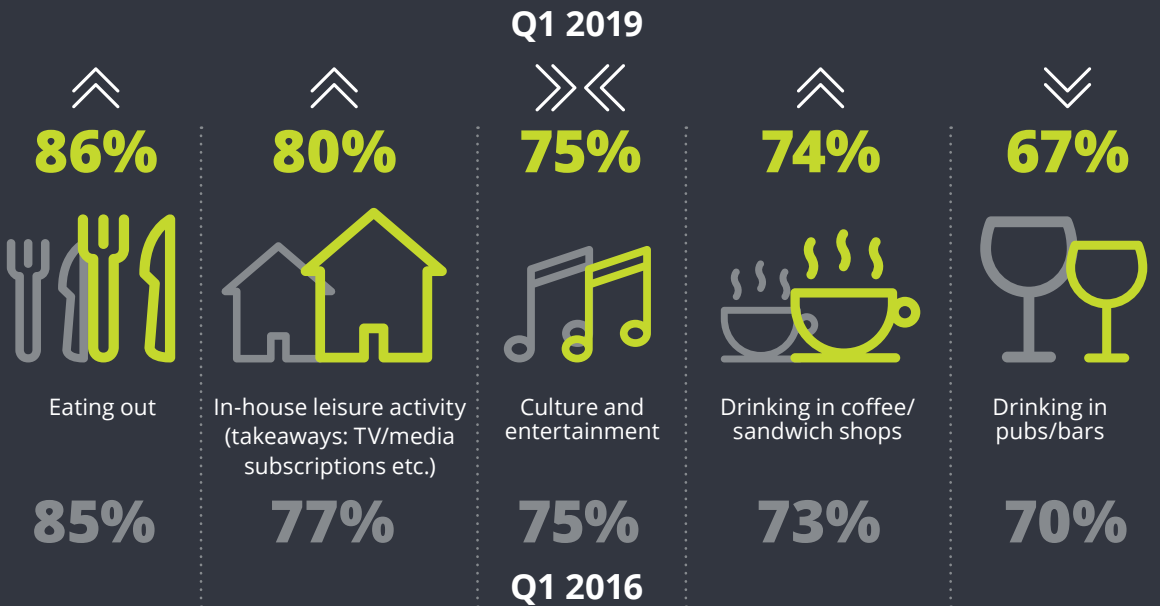
At a glance – Looking back: Leisure spending 2016-2019

Despite wider political and economic uncertainty over the last three years, consumers have kept their overall leisure spending fairly stable.



Everybody wants to have some fun

96% of consumers have spent on leisure in Q1 2019, up from **95%** three years ago.



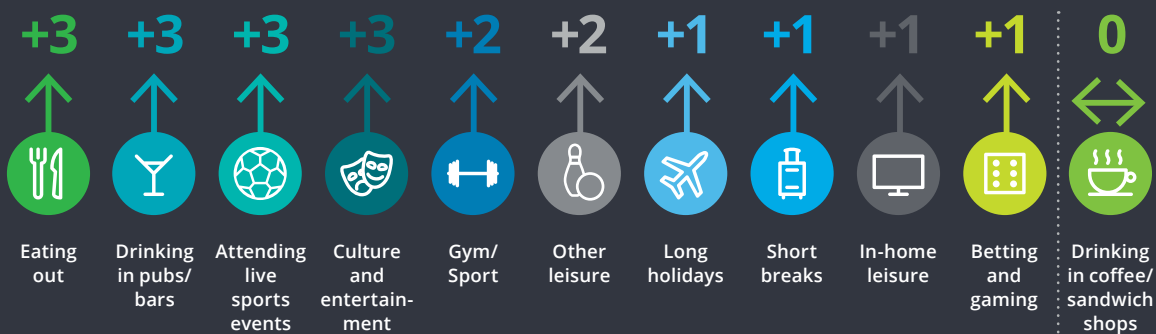
Off to a good start

Loving leisure - Q1 2019 leisure spending

Compared to the same time last year consumers report to have spent more in almost all leisure categories with net spending being up by...

...apart from

Year-on-year percentage point changes in reported net spending



Opportunities or challenges on the horizon?

- Q2 2019 planned leisure spending

In Q2 2019 consumers intend to spend more in all leisure categories compared with the same time last year.

Year-on-year percentage point changes in reported net spending



But consumers are feeling a little cautious



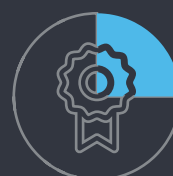
42%



37%



30%



25%

While **42%** of consumers are confident about their personal financial situation, **37%** believe the current political uncertainty will have a negative impact on that in Q2 and Q3.

30% believe they will spend less on leisure in Q2 and Q3. **25%** of consumers believe this is as a result of the political and economic uncertainty.

Feeling the squeeze

The behaviour of the leisure consumer continues to be a strong indicator of the prospects for the UK economy. As consumer income has been squeezed in the last three years, consumers have had to re-evaluate their spending on leisure. This has led them to favour big-ticket leisure categories.

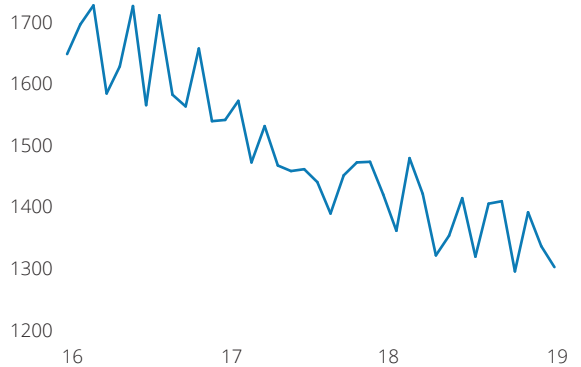
We published our last report in June 2016 when consumer spending was holding up well despite the UK referendum. Consumers' finances were supported by low inflation, high employment and growth in nominal earnings. The boost to consumer spending power was reflected in growing demand for the leisure sector and more varied experiences on offer. But following the referendum the UK entered a period of unprecedented political uncertainty. So how have the economic conditions for the leisure consumer changed since then?

The boost to consumer spending power was reflected in growing demand for the leisure sector and more varied experiences on offer.

Under pressure

Some of the news is good. Unemployment has continued to decline, to record low levels, supporting consumer incomes.

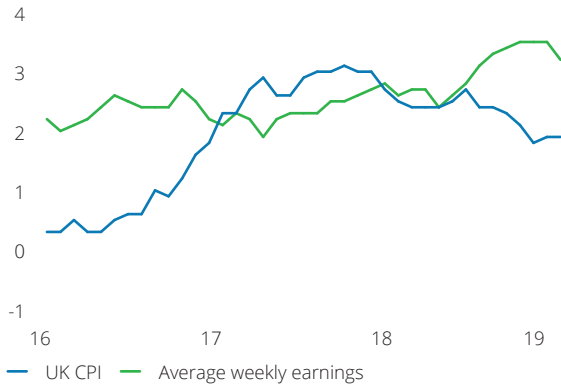
Figure 1. UK unemployment



Source: Office for National Statistics (ONS)

Inflation, however, has picked up from the lows seen in 2015 and at various points over the last three years that growth in inflation has outstripped any gains in nominal earnings. Consumer income has therefore been under pressure, especially in 2017.

Figure 2. UK average earnings and UK CPI inflation – year-on-year % change

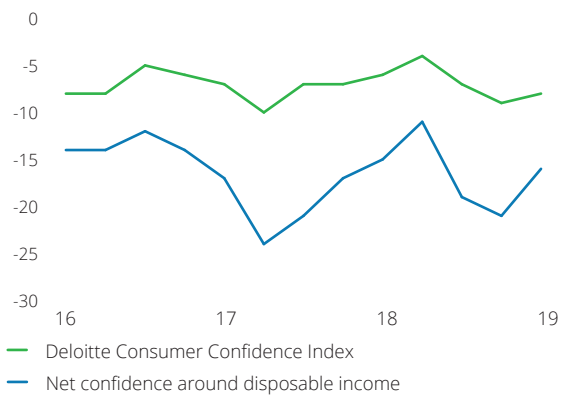


Source: ONS

Consumers have relied on borrowing to support their spending. Credit card lending has remained at historically high levels, with an annual growth rate of nine per cent in 2017 compared to 5.5 per cent in 2015.¹

When there has been more pressure on incomes it has affected consumers' mood, leaving them less confident about their disposable income.

Figure 3. Deloitte Consumer Confidence Index



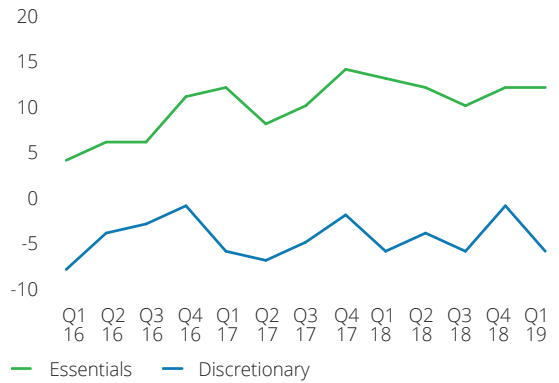
Source: Deloitte Consumer Tracker

Changing spending behaviour

Consumer spending has continued to grow but at a slower rate than before. The growth rate for overall UK consumer expenditure has nearly halved from 3.2 per cent in Q1 2016 to 1.8 per cent in Q1 2019.²

Much of the growth comes from increased spending on essentials as the cost of utilities, transportation and groceries has risen.

Figure 4. Category spending over the last three months

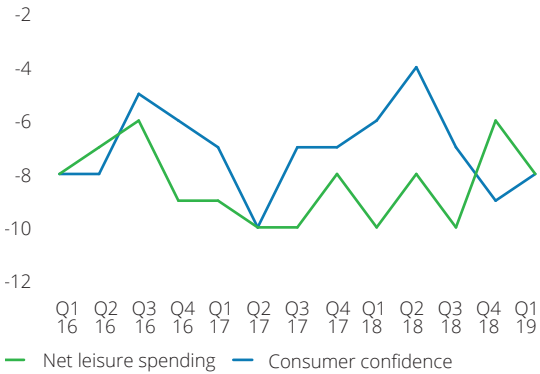


Source: Deloitte Consumer Tracker

Since 2016 growth in discretionary spending has been limited and the average expenditure on leisure has been fairly flat overall during the three years. However, our data shows that the tightening in disposable incomes in late 2016 and in 2017 dented leisure spending.³

Figure 5. Consumer confidence and net leisure spending by category

% of consumers spending more in the category or being more confident in the three month period



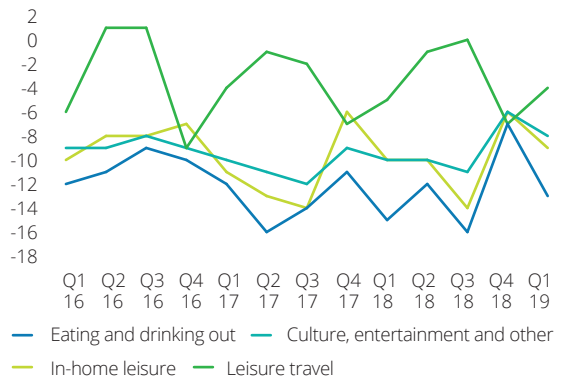
Source: Deloitte Leisure Consumer

The relationship between confidence and leisure spending is not straightforward as at several points in the last three years we have seen the two diverge. Sometimes consumers might be more confident as they expect better times to come and anticipate increases in their disposable income.

Looking at the major leisure categories, it appears that between Q2 2016 and Q3 2017 consumers had decided to cut down on the more habitual leisure categories, favouring more experiential, big-ticket leisure categories, such as culture and entertainment and leisure travel.

Figure 6. Net leisure spending by major categories³ 2016-2019

% of consumers spending more in the category in the three month period



Source: Deloitte Leisure Consumer

Heading up again?

More recently improvements in wage growth have rejuvenated the consumer. In Q4 2018 overall net leisure spending stood at -6, the highest it has been for over two years. The longitudinal data show that the first quarter tends to see some contraction in leisure spending as consumers refrain from spending after the indulgence in the run up to Christmas. Yet, despite confidence in Q1 2019 being lower than a year ago, leisure spending was above the levels seen the same time in 2018 or 2017, suggesting consumers might now have more flexibility in their budgets.

Consumer fundamentals are expected to continue to improve over coming months, promising a more positive environment for the UK leisure sector. However, any increase in consumer spending is dependent on how the economy and consumers react to wider political and economic developments, such as UK's exit from the EU and the fate of the global economy in coming years.

The evolving passion for leisure

As consumers' passion for leisure persists, experiences need to be at the centre of the renewed high street.

Experiences become social 'currency'

Improving personal finances and overall confidence are critical to ensuring consumers spend. But changes in their mindset have been key to ensuring they spend that money on leisure.

Arguably the importance of experiences has risen in the last three years as, in an era of 'selfies', the tendency of consumers to document and share their lives digitally and on social media has grown.⁵ Experiences have become a new 'currency' in social interactions, a way for consumers to distinguish themselves and obtain a higher status. They boast unique consumer experiences rather than just consumer goods.

Experiences are also seen as a reward. For instance, in our survey 36 per cent of 18 to 34 year old consumers stated that they would treat themselves to experiences such as going out to restaurants, bars and the cinema instead of shopping for clothes or shoes. It is therefore unsurprising that spending on things to do has grown much faster than spending on things to own. In 2017 spending on entertainment grew year-on-year by over ten per cent while spending on clothing grew by only 1.4 per cent and on groceries by 3.8 per cent.⁶

However, consumers have also recently started to become more aware of the negative impacts of their obsession with digital interaction and the use of social media. Over two-fifths (43 per cent) of UK consumers think their partners use their smartphones too much and 31 per cent feel they are not communicating as much face-to-face with their friends and family when spending time with them.⁷ Additionally, a range of studies suggest consumers are beginning to acknowledge that social media is impacting their mental health negatively.⁸

The leisure sector has in fact seized the opportunity to provide innovative offerings for consumers to help address these negative side effects. Various hotels and spas offer digital detox retreats while some cafés advertise that they do not offer wifi. In the future the sector may benefit from highlighting how it can facilitate enjoying time together with friends and family.

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The sharing economy evolves

Another key behavioural change we highlighted in our last report was the shift towards more collaborative consumption which has enabled consumers to be more economically effective. By owning fewer assets individually and sharing cars, homes or even luxury clothing, they have more disposable income to spend on leisure activities and experiences.

In the last three years the sharing economy has grown notably in the UK and some estimate it will be worth £140 billion by 2025.⁹ But as demand has grown, these commercial models have gradually become more mainstream. For instance, second-hand online market places have evolved into bigger e-commerce platforms for new as well as used products.

In the leisure sector the sharing economy has provided consumers with a more authentic, local alternative to hotels when travelling. As peer-to-peer accommodation has attracted more corporate demand, the value proposition has broadened, and established hotel brands have also invested. The challenge for the sector now is to understand how it can continue to offer an authentic, local feel while ensuring that the scale and standards that corporate customers demand are maintained.

The future of the high street relies on its ability to bring physical retail with experiential leisure.

Towards a better future – creating the experiential high street

The sharing economy is not just offering consumers alternative leisure options. It is also changing the way in which they engage with different parts of the sector. Ride-sharing has changed the concept of mobility and demand for transportation in many urban areas, especially in larger metropolitan cities. There has been a shift away from a point-to-hub model where people commute from work or home to a local hub, such as a train station in a town centre. As more personalised, flexible transportation has become affordable through ride-sharing and city bicycle hire schemes, consumers have shifted towards a point-to-point model where they go home direct from work. The bypassing of transport hubs on high streets or town centres has contributed to less impulse buying in high street shops.

Simultaneously, increasing internet penetration, wider adoption of smartphones and improvements in e-commerce experiences have shifted the focus further away from the high street as a centre for shopping. Online retailers now offer to deliver almost anything within hours. There are fewer reasons for consumers to shop on their local high street. Similarly, as society becomes less reliant on cash there are fewer trips to bank branches in town centres, further reducing the opportunities for spontaneous shopping.

As footfall has fallen, physical retailers have come under immense pressure and shops have continued to close, with non-food specialists, such as clothing, electronics and home improvement stores, hit hardest. Equally, the boom in the casual dining sector has also led to oversupply on the high street; there has been a correction as significant numbers of restaurants and other leisure sites have closed across the country.

Figure 7. Net store openings and closures by category across UK, 2012-2018



Source: LDC/Deloitte

The restaurant takeaway aggregators or platforms have offered a way for the casual dining sector to adapt to this changing behaviour. They have made it easier for consumers to enjoy restaurant-quality meals at home without having to change their travel plans or go out to pick up food. It has also allowed restaurants to benefit from more spontaneous and impulsive leisure spending by lowering the barriers for consumers. However, the use of takeaway services has put further pressure on high streets.

In our last report we noted how the future of the high street relies on its ability to bring physical retail alongside experiential leisure. While there have been attempts to make this happen, there is still more to do. Arguably the businesses that have continued to flourish on the high street are the ones that have managed to get that balance right. For instance, some exercise brands have seen notable interest from both consumers and investors as they offer not only a good product but also the experiential aspect of yoga classes in selected retail stores.¹⁰ Similarly, bar chains specialising in combining activities and socialising, such as darts, golf or table tennis themed bars, have continued to perform strongly even during more challenging times. For example, various crazy golf and go-karting concepts attracted significant investor interest in 2018.

In the future restaurants and bars need to focus on offering more than just good food and drink. Consumers will continue to look for leisure venues that bring together 'an experience package' for all the senses. This includes striking design and decor, memorable activities, distinctive food and beverage offerings and outstanding service.

Consumers will continue to look for leisure venues that bring together 'an experience package' for all the senses.

Opportunities or challenges ahead?

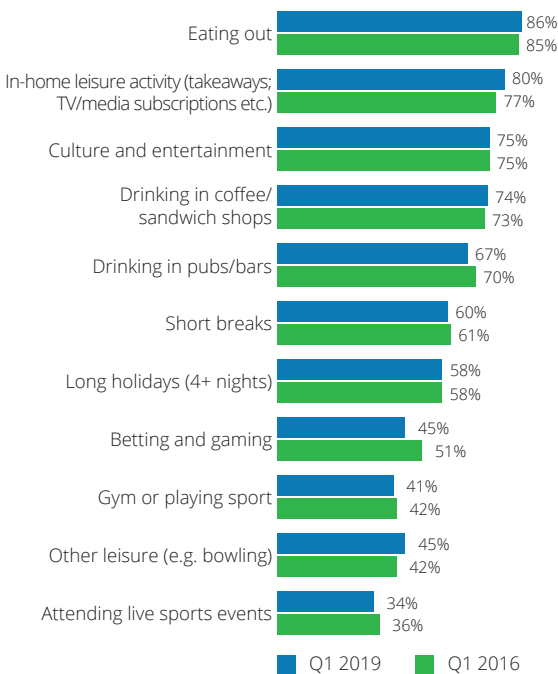
While leisure spending in the first quarter of 2019 got off to a good start with four in ten consumers feeling positive about their personal finances in the run up to Q4 2019, uncertainty is leading to some caution.

Everyday leisure

Almost all of the consumers surveyed (96 per cent) have spent some money on leisure in the first quarter of 2019, up from 95 per cent in Q1 2016. Eating out is still the most popular category of leisure spending, with 86 per cent of consumers reporting that they spent on meals out. However, in-home leisure is now a stronger contender for spending than three years ago. The abundance of takeaway offerings and media entertainment options makes the home an increasingly attractive alternative, especially if consumers want to keep an eye on their budgets.

18-34 year old consumers are more likely to spend money on in-home leisure, going to the gym, playing sport or other leisure experiences.

Figure 8. Consumer spending on leisure
% of consumers spending in the category in the three month period



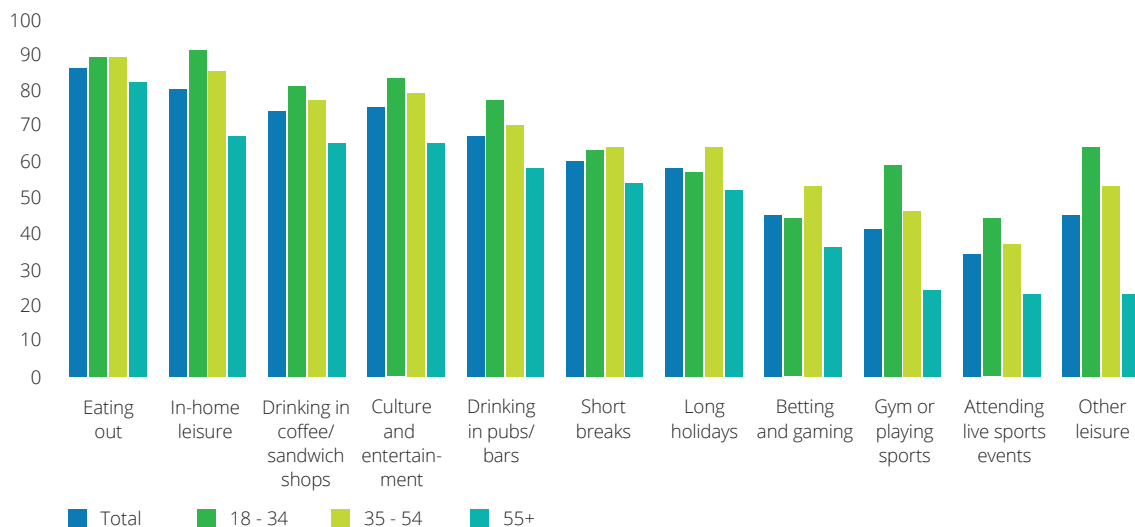
Leisure has continued to attract spending across the different groups of consumers. As seen in our first report, wealthier consumers have continued to be the most likely to spend on leisure, with all consumers with a household income of £100,000 or more reporting to have eaten out in the last three months. However, 63 per cent of those on incomes of under £10,000 have also done so, and this share has remained stable compared to three years ago.

In terms of age groups, 18-34 year-old consumers are more likely to spend money on in-home leisure (91 per cent), going to the gym or playing sport (59 per cent) or other leisure experiences (64 per cent) while 35-54 year-olds are more likely to spend on betting and gaming as well as holidays compared to other age groups. The most popular leisure categories for consumers over 55 years old are eating out (82 per cent) and in-home leisure (67 per cent).

Base: Q1 2019 N=2995, Q1 2016 N=3132
Source: Deloitte Leisure Consumer

Figure 9. Consumer leisure spending by age group in Q1 2019

% of consumers spending in the category in the last three months



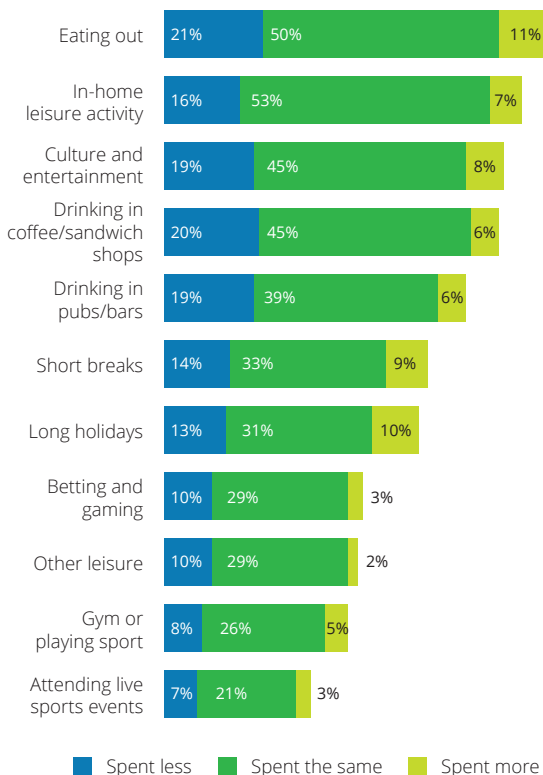
Base: Q1 2019 N=2995
Source: Deloitte Leisure Consumer

Eating out and in-home leisure have also seen the biggest share of consumers increasing or maintaining their spending at previous levels. In Q1 2019 61 per cent of consumers reported they had spent more or the same on eating out; compared with the previous quarter while 60 per cent said the same for in-home leisure. The 18-34 year olds (15 per cent) and those with an annual household income of £25,000-£50,000 (14 per cent) were the most likely to report increased spending on eating out.

Net spending on leisure in the first quarter was up or stable in almost all categories compared to previous years. Some habitual activities such as eating and drinking out bounced back from the lower levels seen in Q1 2018 while reported expenditure on big ticket experiences such as culture and entertainment, and attending live sports events, were at their highest levels.

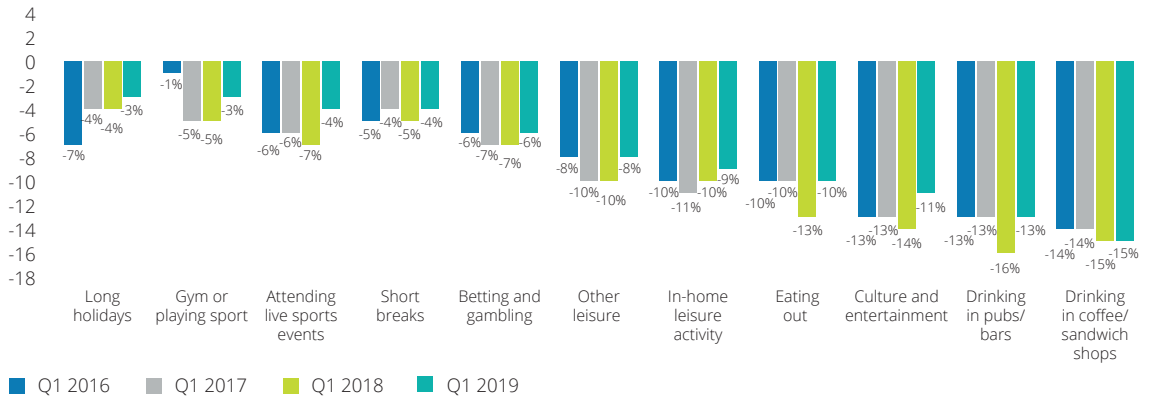
Figure 10. Leisure spending by category in Q1 2019

% of consumers spending in the category in the three month period



Base: Q1 2019 N=2995
Source: Deloitte Leisure Consumer

Figure 11. First quarter net leisure spending by category
 % of consumers spending more in the three month period

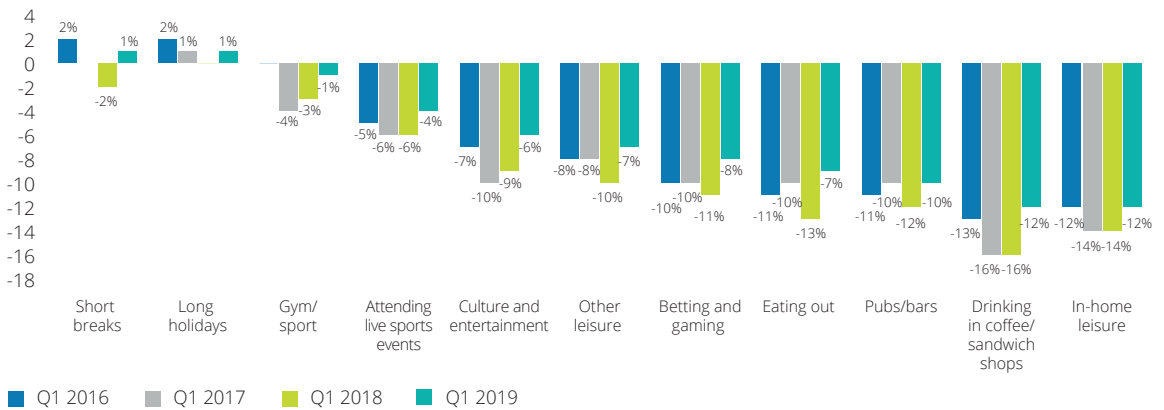


Source: Deloitte Leisure Consumer

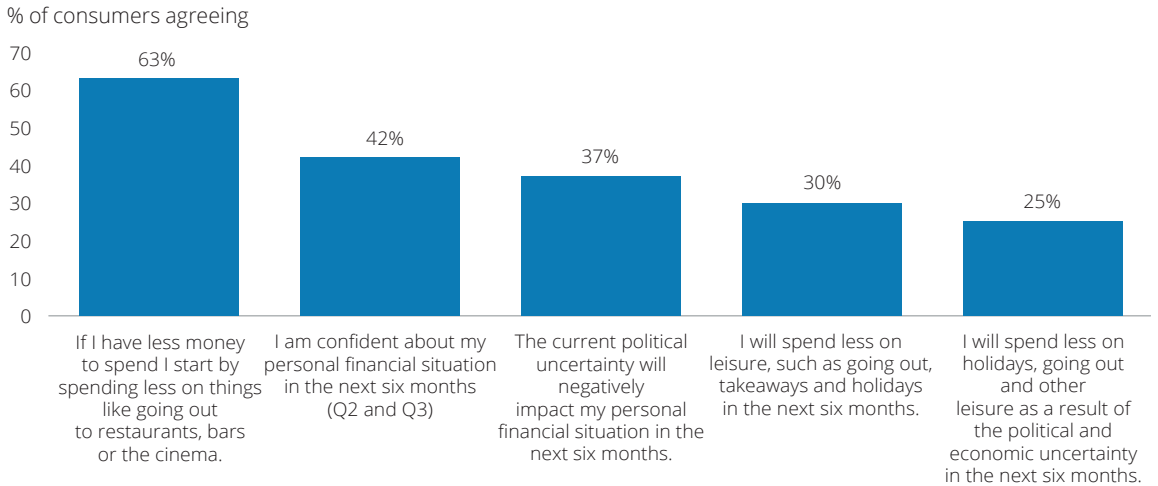
Opportunities or challenges ahead?

Consumers are confident that they will be able to spend on leisure. Net spending intentions for Q2 2019 are up in all categories compared to last year and are mostly up compared to the same period in previous years.

Figure 12. Net leisure spending intentions for the second quarter
 % of consumers spending more in the three month period



Source: Deloitte Leisure Consumer

Figure 13. Consumer outlook for six months (Q2 and Q3 2019)

Base=2995

Source: Deloitte Leisure Consumer

However, when asked about the outlook for their spending up to Q4 2019 consumers' views are mixed. Four in ten (42 per cent) feel positive about their personal financial situation, a quarter (25 per cent) do not. Additionally, over a third (37 per cent) state that they believe the current political uncertainty will affect their personal finances negatively in the second and third quarters. This could have some impact on the level of leisure spending: almost a third of consumers (30 per cent) intend to spend less on leisure in the same period, and a quarter see this to be linked to the wider uncertainty. This is partially because most consumers (63 per cent) believe leisure is likely to be one of the first areas in which to cut back when they have less money.

The negative outlook for personal finances seems to be related to earnings as those from very low income households (under £10,000) are less likely to be confident; only one in five say that they are confident about their financial situation. The impact of political uncertainty is felt more by consumers in households with children (41 per cent); these consumers are also much more likely (39 per cent) to cut their leisure spending in the run up to Q4 2019.

In summary, the mood among consumers remains positive overall, with many optimistic about their finances; and leisure spending intentions for Q2 2019 look similar to 2016. Yet there is an element of caution, with some expecting more challenging times financially. This might have an impact on leisure spending in coming months. Successful businesses will be those that offer something different and unique to consumers, giving them a reason to want to experience something new.

Diving deeper into



Leisure

In this section we provide an overview of the key sub-sectors of leisure, outlining current key trends from both a consumer and a business perspective, and give our view on how they may evolve in the future.



Eating and drinking out

Leisure travel

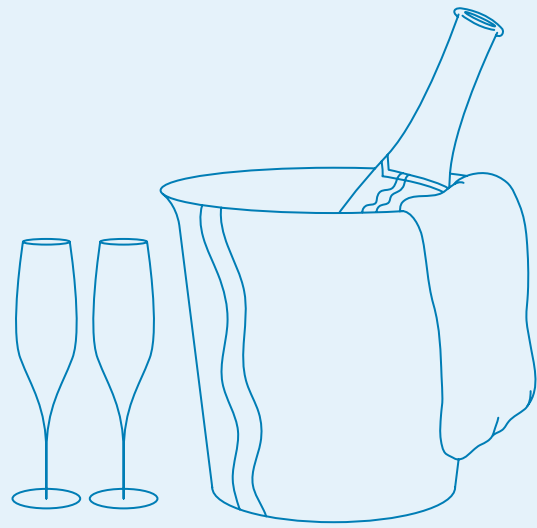
Entertainment and culture

Health and fitness

Betting and gaming



Eating and drinking out

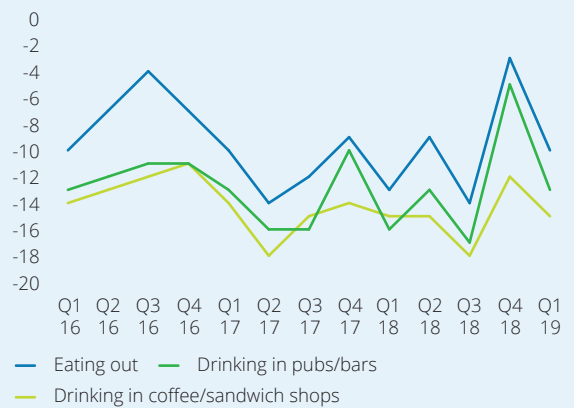


In the future the eating and drinking sector needs to focus on addressing key operational challenges, such as tackling the cost pressure and talent issues, while investing in the experiential side of their offering.

Ups and downs

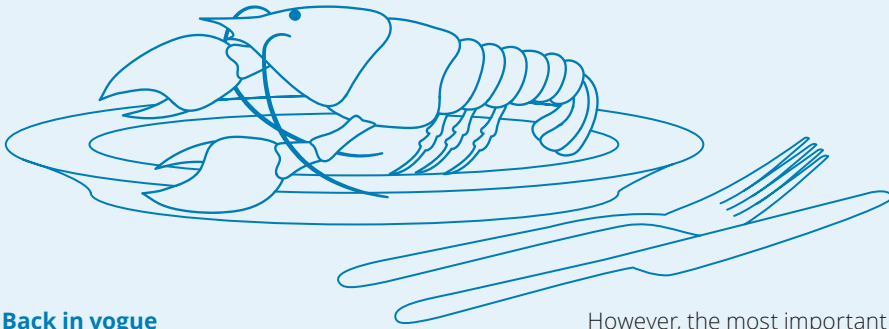
In our first report we outlined that in the post-recession recovery period leading up to 2016 eating and drinking out shifted from being an indulgent, occasional leisure activity to being a frequent, habitual one. As consumers enjoyed more financial flexibility as they were happy to spend money on making everyday life more convenient and enjoyable. Eating and drinking out was part of that. The uptick in demand attracted investment into the sector, provoking the development of a wider range of brands across all market segments and rapid expansion in the numbers of establishments in each segment. The market very quickly became saturated.

Figure 14. Net spending on eating and drinking out
% of consumers spending more in the three month period



Source: Deloitte Leisure Consumer

In 2017 many businesses in the sector started to struggle as the squeeze on consumers' disposable budgets made them more cautious about eating out. As consumers spent more carefully and there was oversupply in the sector, consumers could be more selective. Many restaurants responded by introducing vouchers and discounts to try to encourage loyalty. This all contributed to pressure in like-for-like sales and profits. As discussed in our *Changing tastes* report, pressure on margins started to rise, reflecting broad economic trends, including rising labour costs, higher business rates and increasing food costs, exacerbated by a weaker pound following the EU referendum.¹¹ This has contributed to a number of closures across the sector.



Back in vogue

Consumer demand has recently been improving and our data shows that intentions to spend in Q2 2019 were more promising than for any equivalent period in the past three years. Particular growth areas have been health-orientated offerings, including vegan food or non-alcoholic drinks. Similarly, venues with a focus on convenient use of technology, whether for pre-ordering or payment, have been popular. Also, grab-and-go concepts have continued to flourish as the on-the-go culture has become embedded into everyday life, particularly in larger cities.

Time to tackle the big issues?

While demand has recovered, operators continue to struggle with some fundamental challenges. Talent is in short supply and staff turnover is high. Additionally, reducing immigration could have a major impact on the sector. For instance, ethnic food restaurants might be challenged if the flow of foreign chefs reduces further. The sector will need to work urgently on addressing the longer term issue it faces: How can it make itself more attractive as a career option for younger people? And how can it raise its productivity and train its staff more effectively as a sector?

Similarly, the eating out sector is still grappling with the disruption created by the emergence of the food delivery operators and identifying the best model to be able to benefit from the growth of in-home leisure. Though takeaway portals charge a commission that reduces their margin casual dining businesses recognise that the portals can help them to achieve incremental sales growth and also add value in terms of improved brand awareness and loyalty. In future the delivery companies could potentially become bigger disruptors in the restaurant sector, capturing significant value – beyond the delivery. Therefore, companies that find ways to connect directly with their 'delivery customer' and create reasons for them to come to their restaurants instead are likely to benefit the most. Failure to do so could result in customers being captured by the delivery operators and margins being squeezed.

However, the most important success factor for restaurants and bars in the coming years is the quality of the overall experience. Restaurants, bars and pubs cannot achieve growth by just offering food and drink. They need to be able to impress consumers so that they come again. Creating a well-rounded experience is key to achieving customer loyalty and therefore continuing to grow more sustainably.

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Leisure travel

Consumers are increasingly looking to use holidays as an opportunity to learn new skills and explore destinations off the beaten track.

Holidays are special

Holidays have remained special in consumers' leisure plans. Short breaks and long holidays have been one of the categories with the strongest spending. Many consumers also prioritise holiday spending over other leisure categories, above all, presumably, when their budgets are tighter: 39 per cent said that they would prefer to save for a holiday rather than spend money on other leisure.

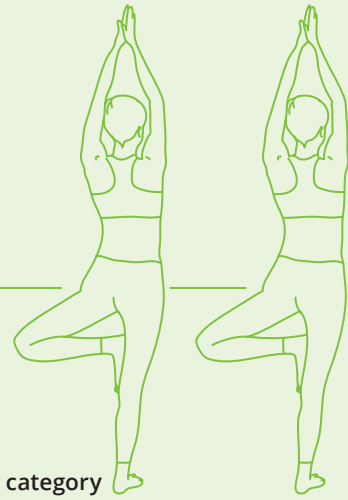
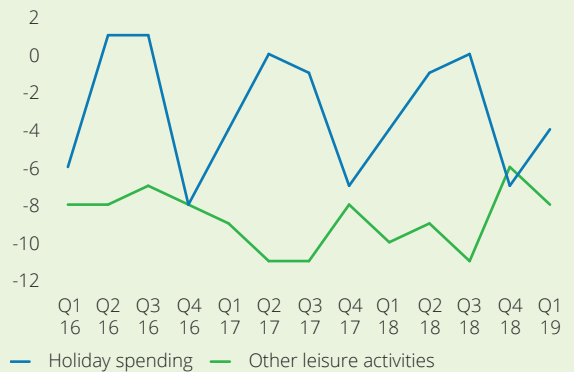


Figure 15. Net spending by category 2016-2019

% of consumers spending more in the three month period

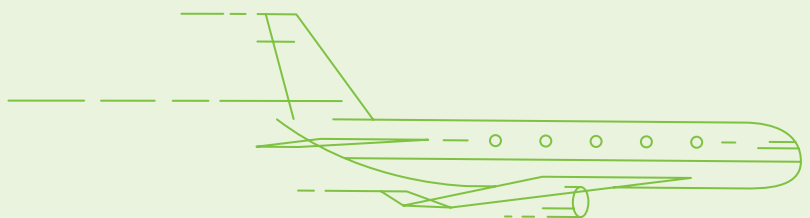


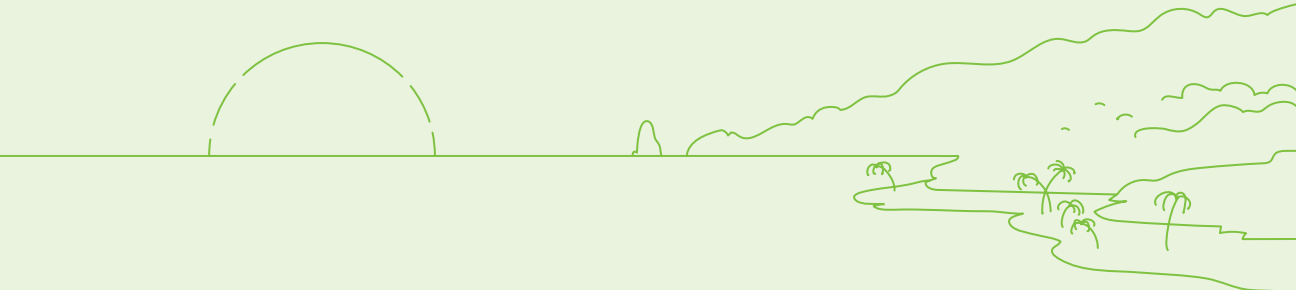
Source: Deloitte Leisure Consumer

Heading to the sun: positive outlook for 2019

Our research has shown that consumers remain positive about their future spending on leisure travel with planned net spending for the second quarter hitting positive territory. Similarly, a forward looking report by ABTA found that at the end of 2018 summer bookings for 2019 were up by one per cent.¹²

The study also found that most holidays planned by Britons (60 per cent) at that point were to Europe, although interest in long haul holidays has also grown since the EU referendum.¹³





While the traditional holiday operators have had a challenging first half of 2019 and the Brexit delay does not seem to have boosted overall holiday demand, a few specialist operators have reported some positive short-term impact. Most notably, ferry bookings to cross the English Channel surged 40 per cent overnight after the Brexit extension was announced.¹⁴

Domestic travel companies are expected to do well in 2019 as estimates from the end of 2018 suggest that 59 per cent of UK consumers plan to holiday in the UK.¹⁵ This is expected to amount to around £20 billion in spend, up from £14.3 billion in 2018.

Going 'off the beaten track' in the future

While holidays continue to be one of the most popular areas of leisure spending, consumer expectations on what a holiday is have evolved notably over the last three years. The experience-seeking consumers are increasingly using holidays as a way of enriching their lives by immersing themselves in new cultures or learning new skills. Consumers increasingly see holidays as an opportunity to escape their ordinary lives and to try something different, whether through a yoga or health retreat, an expedition cruise or courses and workshops. Holidays with classes and workshops have seen a 90 per cent increase in consumer demand between 2017 and 2018 while demand for wellness experiences grew by 69 per cent globally.¹⁶

Also, as the level of tourism and travel has increased globally, over-tourism and its social and environmental consequences have become bigger concerns for both consumers and the industry. Some policy-makers have put up barriers to protect local communities; and consumers have started to divert their attention to less crowded locations. Explorative travel to locations 'off the beaten track' has increased notably in popularity in the last couple of years.

The industry has responded by evolving its offerings. Oslo, for example, has launched advertising campaigns highlighting a less popular destination as a new alternative for travellers.¹⁷ Similarly airlines have focused on developing new flight routes, and hotel chains are exploring extending their footprint in lesser known destinations. For instance, some low cost carriers have launched new routes to Jerez, Rimini and Aalborg and Bydgoszcz in 2018 and 2019 to entice consumers to explore lesser known places.¹⁸

Recent travel sector mergers and acquisitions (M&A) and partnerships have also largely focused on allowing established brands to buy into strategic innovation, mainly on the customer experience side. Innovation-led M&A could very well continue in coming years as the sector focuses on digitising its internal operations to improve productivity and operational efficiency.

Holidays with classes and workshops have seen a 90 per cent increase in consumer demand between 2017 and 2018 while demand for wellness experiences grew by 69 per cent.

Entertainment and culture

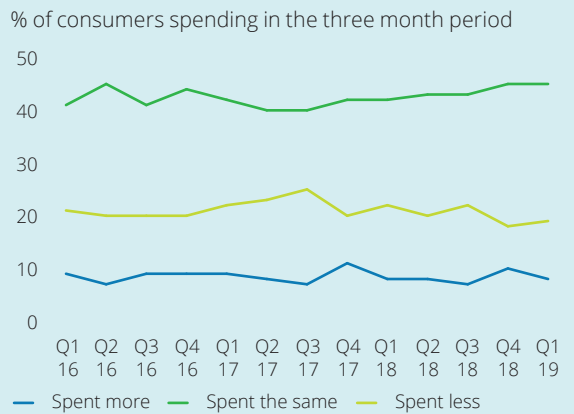
The experiential nature of culture and entertainment offerings will undoubtedly help the sector to continue to appeal to the discovery-orientated consumer.

What a treat!

The UK arts, entertainment and recreation sector is estimated to be worth over £38.9 billion, having grown by 5.4 per cent between 2014 and 2019.¹⁹ Our research suggests that around three quarters of UK consumers spend on culture and entertainment.

Spending on culture and entertainment seems to have remained fairly flat over the three year period. However, the pressures on consumer income that intensified in 2017 affected the sector negatively, with more consumers cutting spending in this category for three subsequent quarters. This suggests that consumers see these experiences as very much in the 'occasional', considered category of activities.

Figure 16. Spending on culture and entertainment 2016-2019



Source: Deloitte Leisure Consumer

Despite tough competition from streaming services and a very hot summer, cinema visits, with 177 million admissions in 2018, were the highest in two decades.



Innovation creating new reasons to go

More recently the sector has seen consumer spending recover. The share of consumers spending the same on culture and entertainment has increased from 42 per cent in Q1 2018 to 45 per cent in Q1 2019 and the reverse has happened in the share of those spending less (22 per cent to 19 per cent respectively).

Going to the cinema or theatre are the most popular activities, with around one in four consumers reporting spending in this area.²⁰ Despite tough competition from streaming services and a very hot summer, cinema visits, with 177 million admissions in 2018, were the highest in two decades.²¹ While big name movies such as Avengers, The Incredibles 2 and Black Panther were part of the draw, it is the investment into differentiating and upgrading the cinema experience that has really drawn consumers in.²² The emergence of premium and luxury cinemas, increasing focus on higher quality food and beverage offerings, and more experiential cinema through 4DX and animatronics have refreshed the offering and provided new reasons for consumers to go.

Simultaneously the growth of smaller cinema chains have made cinemas more local and accessible. Other factors supporting cinema visits have been increasing sales of memberships, with benefits ranging from discounts to unlimited free tickets; and other companies, including banks, price comparison websites and health insurance providers using free or discounted cinema tickets as incentives or rewards for their customers to visit.

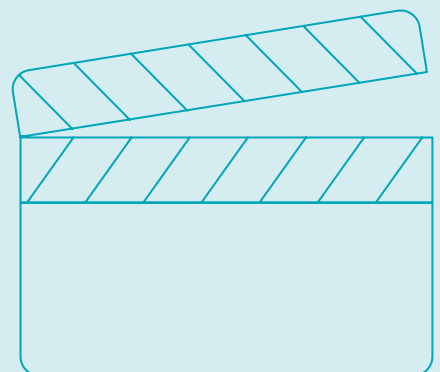
Attractions are another favourite for consumers in this category and the warm weather in the summer of 2018 was a major boost to the sector. Historic venues had the greatest growth in admissions while indoor experiences such as museums and art galleries did less well.²³ The latter might also have been affected by the reduction in inbound tourism, which dropped by four per cent compared to 2017.²⁴

Invest in the supporting act

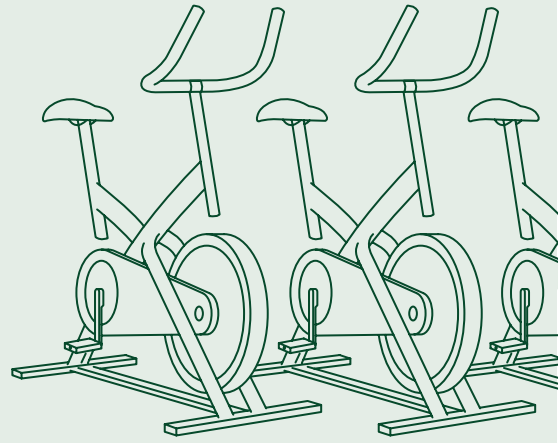
The experiential nature of culture and entertainment offerings will undoubtedly help the sector to continue to appeal to the discovery-oriented consumer. While cinema admissions in Q1 2019 were down by 18 per cent from the previous year, in part due to the films on offer in 2018 being exceptional, longer-term factors are likely to encourage demand to hold up in coming months.

However, if consumer incomes were to come under more pressure again or consumers consciously cut down on leisure spending, this sector could bear the impact. After all, it is still considered more a 'nice to have' compared to other big-ticket leisure categories such as holidays.

The sector is likely to benefit from continuing investment into new types of experiences. One possible quick win could be to invest in adjacent offerings, such as food and beverage. Some research by Mintel suggests that catering at attractions, for example, is underperforming compared to its potential.²⁵ The key to success is for each venue to analyse its clientele to understand whether the greatest gains in sales can be achieved through improving quality, increasing speed of service or better value.



Health and fitness



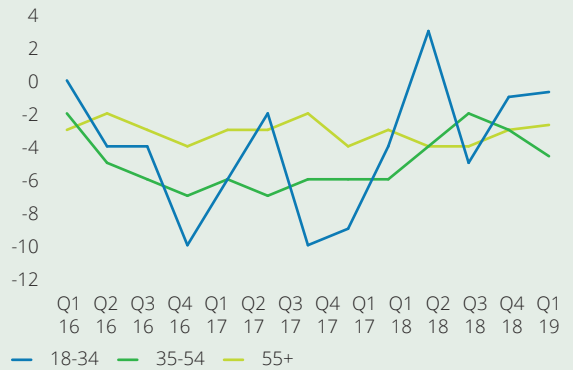
Boutique fitness operators have recently disrupted the exercise market, appealing to consumers with distinct and flexible offerings. They can grow by building strong partnerships across the health and wellbeing sector, therefore cementing themselves in the broader industry.

A mature but growing market

The UK health and fitness industry has evolved over the last three decades into a relatively mature yet still attractive and growing market. The Leisure Database Company estimates the fitness market to be worth £5 billion, an increase of 2.9% on 2017.²⁶ Moreover, it projects a compound annual growth rate of 8.5 per cent in value and five per cent in the number of gyms and health clubs over the next five years, compared with seven per cent in the last five years. This is partly helped by the wider trend in health and wellbeing, which has been a major force not only in the fitness industry but also across other leisure sectors, such as hospitality and travel, as well as retail.

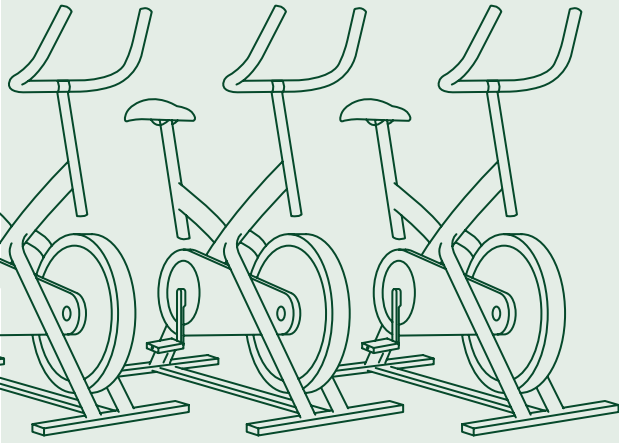
Figure 17. Net leisure spending on gym or playing sport by age group

% of consumers spending more in the three month period



Source: Deloitte Leisure Consumer

Our research has shown that while claimed spending across all consumers has stayed fairly even, spending by younger consumers has seen more variation. Some of this fluctuation could be down to low cost and no contract gyms increasing their footprint nationally over the last decade, offering consumers a broader range of options to trade down or exercise flexibly, without the longer-term commitment.



Making exercise more fun

Some of the more established parts of the sector (e.g. public leisure centres) have seen lower growth.²⁷ This is in part due to the up and coming boutique fitness sector which is offering a new, differentiated product. The millennial generation – enthusiasts who see health and fitness as a way of life – seem to be particularly interested by this type of exercise. They are willing to pay more for a class tailored to their specific goals and more fun and engaging than just a routine gym workout. They also like sessions that specialise in one type of exercise with smaller class numbers.

Arguably, this segment has succeeded due to three key elements. Firstly, a focus on both the style of exercise and also the way in which it is delivered which makes it easy for consumers to understand and identify. Popular types include cycling, high intensity workouts or yoga. Secondly, consumers enjoy the flexibility offered by many boutique offerings in terms of not being tied to a gym contract but rather paying for services as and when taking part. Finally, the boutique studios have succeeded in creating a sense of community which allows the staff and customers to become familiar with each other. This makes the exercise experience more enjoyable and customers are able to identify with the brand, which in itself is a powerful growth tool.

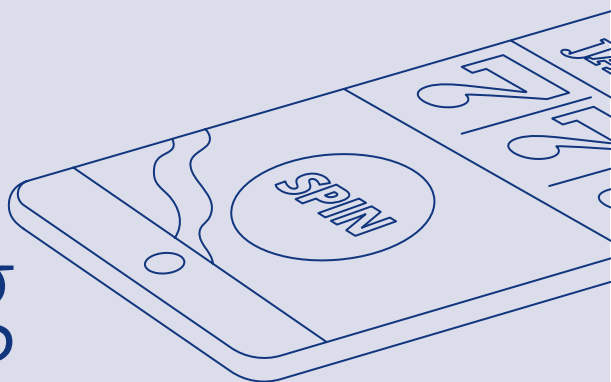
Partnerships key to future growth

Many expect the UK boutique fitness market to experience increased levels of investment in the coming years. There are a number of interesting concepts with rapidly growing customer bases that might grab the attention of financial investors. While currently the market is still fairly fragmented, the extent to which specific boutique operators are successful in growing is dependent on how quickly and strongly consumers start to display preferences towards a certain way of training.

The operators can also increase their visibility in the market by working alongside health organisations and insurance companies to provide evidence-based fitness programmes to their customers as part of a wider integrated health and wellness offering. Such alignment can help them gain further exposure to different markets, such as healthcare, and by cementing themselves in the broader industry they are more likely to grow faster.

The boutique studios have succeeded in creating a sense of community which allows the staff and customers to become familiar with each other.

Betting and gaming



Betting and gaming operators are likely to see demand growth online as well as in territories outside the UK. While for consumers sports will remain a key area of betting, they are likely to seek out new, innovative gaming experiences.

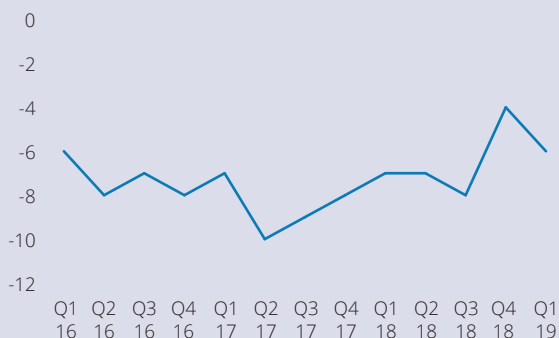
Do you want to bet?

Gambling is a popular leisure activity in the UK with nearly half of UK adults (46 per cent) reporting that they have taken part in gambling at least once in a four week period.²⁸ However, participation in gambling has decreased from 48 per cent in 2016. Much of the reduction is due to fewer, particularly younger, consumers playing the National Lottery, which continues to be the most popular type of activity in this category.

Our data, reported by consumers, suggests that net spending on betting and gaming has remained fairly constant over the last three years. The outlook for the spending was also very positive with intended net spending for Q2 2019 being up by three points compared with the previous year.

Figure 18. Net leisure spending on betting and gaming

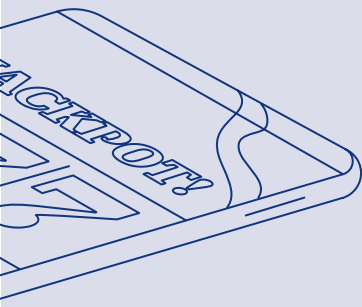
% of consumers spending more in the three month period



Source: Deloitte Leisure Consumer

Changing areas of focus

The gambling sector has changed notably as a result of the widespread adoption of smartphones. Remote betting and gaming has emerged as an instantly accessible alternative to the bricks and mortar betting shops, often offering more favourable pricing and odds. Since 2014 operators have broadly focused on bolstering their position in this part of the sector. While a survey by the Gambling Commission found only around two in ten reporting to have gambled online, remote betting and gaming makes up around 37 per cent of the market and total gross gambling yields in Great Britain.²⁹ Online gambling has seen fast growth, particularly on horse and dog races which both saw a ten point increase between 2017 and 2018.



Regulation and safeguarding for responsible betting and gaming has been a growing focus in the UK. This has particularly affected gambling in the physical environment through the restriction affecting maximum stakes on fixed odds betting terminals in betting shops. However, there has also been sector-wide restriction on advertising and payments that have made the UK market a more complex one to operate in.

Meanwhile, the US is gradually liberalising sports betting. The 1992 Professional and Amateur Sports Protection Act, the federal law banning sports betting outside of Nevada, was overturned in 2017, paving the way for states to legalise sports betting from April 2018 onwards. By the end of 2018 seven states had legalised gambling while at least a further eight are expected to explore legalisation in 2019.³⁰

Looking for growth elsewhere

The US has the potential to become the world leader in sports betting, but the growth in the market depends on how willing the remaining states, as well as federal lawmakers, are to embrace policies that allow the industry to grow and vie for market share with the offshore market. Additionally, the Asian gambling market might provide some potential for longer-term growth as the regulatory landscape starts to change there. This, combined with tightening regulation in the UK is likely to lead operators to focus their future growth plans on territories outside the UK while market share consolidates inside the UK.

Online gambling is likely to remain the main channel for growth, as the take up is still relatively low in the context of the high, and still increasing, penetration of smartphones. Existing retail-focused operators will continue to look to their digital businesses for growth, with mergers and acquisitions continuing to drive consolidation in the sector. Regulation in the UK market will continue to focus on securing safer gambling both online and in the retail environment.

Sports betting will remain the growth area for betting and online gambling more broadly. However, consumers are likely to continue to enjoy and seek out new, innovative gaming experiences. As the industry responds to this demand, digital gambling products are likely to converge with interactive gaming products. The interactive gaming sector has already seen notable growth in the last couple of years, with some key global successes, including Pokémon Go and Fortnite. Fortnite has a base of over 250 million players, generating over \$1.2 billion with in-game purchases, while Pokémon Go still has 147 million active monthly users and achieves revenues of around \$2 billion. Measures designed to make gambling safer will need to be at the forefront of this innovation.^{31 32}

As the industry responds to this demand, digital gambling products are likely to converge with interactive gaming products.

Endnotes

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Notes



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