KPMG

Global Leisure Perspectives

Leisure industry trends from around the globe: 2023

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Will Hawkley

Global Head of Leisure and Hospitality, KPMG

Foreword

Global Leisure Perspectives is back.

Our last edition, in 2019, was all about technology-enabled improvements to the customer journey and experience, and the upshot of Brexit. Who would have thought, one year later, that we'd be plunged into the COVID-19 pandemic, which would disrupt the global leisure industry perhaps more acutely than any other sector.

This edition of Global Leisure Perspectives is all about the industry getting back on its feet, redefining its priorities and addressing big issues, like ESG and decarbonisation.

Resilience tested

What strikes me most about the leisure industry is its resilience in the face of disruption created by the pandemic.

It was the first sector to go into lockdown, and the last to come out of it. Yet people stopped going out to eat, to be entertained or to travel even before government-mandated lockdowns came into effect. Overnight, businesses were left with surplus stock, no income, and little or no financial support.

Need bred innovation — and a sector was reborn, albeit in a different guise. I'd go as far as to say that we probably saw five years' worth of innovation in just a few months.

Quick Response (QR) codes, for instance, saved the day. They allowed contactless ordering right across the food industry, from the biggest operators to the smallest. Today, they are used to drive cost efficiency in outlets facing inflationary pressures.

As mentioned in our 2021 'Food for thought' report, confronted with the closure of its outlets, Pizza Pilgrims developed "Pizza in the Post" — a kit with all the ingredients to make your own pizza at home. A cheeky marketing strategy to rate customers' home-cooked efforts on Instagram engaged a wider audience. Pretty soon, the business was selling 20,000 pizzas in the post every week during lockdown. This new direct-to-consumer strand to its business model continues post COVID-19, because why stop doing something that works?

But there were commercial casualties. And job losses. People left the industry because there was no work. But they found new employment in other sectors, like healthcare, delivery or food retail, where they enjoyed what might be considered better working hours, while avoiding split shifts and late nights.

As normality started to return, the aviation sector, which had not anticipated a rapid recovery in demand for travel, found itself with insufficient staff. Shortages led to huge queues at airports and disruption to flight schedules. Restaurants, meanwhile, started to close earlier or shut their doors on certain days of the week to keep costs down and to give staff a better work-life balance. The knock-on consequences for profitability, hindered the sector from driving economic growth.

Yet customers' pent-up demand to get out and about and shake off the cabin fever brought on by lockdown, was good news for the leisure sector. Even though times are still tough — the economic downturn, food inflation and energy prices have seen to that — people now want to eat out, see family and friends and socialize. So, leisure businesses are doing well. Hotel room rates are increasing, and occupancy is up. Whitbread, for instance, posted results in April 2023, which exceed pre-COVID-19 levels and Hilton Worldwide Holdings Inc. posted greater revenue per available room compared to the same period before the start of the coronavirus outbreak. Global tourism is recovering. Americans are travelling again. China is reopening.

A changing world

As the world gets back to living, things are changing in the industry. Innovation and reinvention are reframing the sector:

- Pay is increasing and working hours are becoming more flexible to attract and retain staff and enable a better work-life balance. Campaigns, such as Hospitality Rising in the UK, are helping to transform the image of the hospitality sector, and attract new talent, while shining a light on good employers.
- Better use of outdoor space, including rooftops, allows people to sit outside all year round and enjoy a meal in the fresh air with reduced risk of COVID-19 contagion.
- Brands are following their work-from-home customers out of city centers and into the suburbs. Instead of nipping to the pub in the city with colleagues after work, people go out locally too. Empty retail units on high streets are being turned into new leisure venues, supporting local economies.
- New concepts, like competitive socializing — darts or ping pong nights, activity centers, escape rooms, etc., — are growing at pace.

And consumers are making up for what they missed. Vacations, for many, are no longer considered discretionary spend. They are crucial. Increasingly, experiences come ahead of products, like a new TV or a car, on wish lists. Though people might go away for 10 days rather than two weeks or stay in a three-star hotel instead of a four-star, they now regard travel as a privilege. They value freedom and contact with other human beings.

Among them are middle-income families in China and India, who want to travel the world. And businesspeople who take family away with them to combine work with leisure downtime. And holiday makers who extend their vacation to work while they're away. Hotels are becoming accustomed to the "bleisure" traveler, and learning to anticipate and accommodate their alternating work and leisure needs.

Competition is intense. The pandemic forcibly changed people's values. What went before COVID-19 is quite distinct to what came after.

What comes next, across all segments of the leisure industry, must be greater personalization, driven by data-analysis of behavior, to deliver a great experience, differentiate offerings and capture customer loyalty. And, as explored throughout this edition of Global Leisure Perspectives, ESG should take center stage. Decarbonisation strategies and commitments to net-zero should be incorporated into everything the industry does as it endeavours to reduce its carbon footprint and contribute to a cleaner and greener world and a better society for all.

An Irish Perspective

This issue of Global Leisure Perspectives provides a range of thought-provoking insights on four key priorities areas for the leisure industry. It is about what comes next, following a period of flux, evolutions and demonstrable resilience for the sector.

Driving customer loyalty

We know that value can drive future success. However, the customer's perception of value is not just about the price and the experience anymore. It's also about the "purpose".

Over time, we have seen integrity – the level of trust in an organisation – become more prominent in determining customer loyalty. We're seeing customer sentiment switch from "buying from" to "buying into" brands. This "switch" in purchasing behavior is reshaping the leisure industry and trends are emerging at a global level which have notable relevance for the Irish market.

Growing social awareness - Our research has shown that nearly half of customers say that they are willing to pay more for goods or services that reflect their personal values. Within the tourism industry in Ireland, research has shown that tourism audiences are more sustainability-minded than the general public and leisure and hospitality providers need to think about creating sustainable experiences that make genuine social impact. See [1]Sustainable Tourism in Ireland Understanding the opportunity - failteireland.ie.

Bleisure combines business with leisure - Bleisure defines a new type of travel: neither fully business nor fully leisure, but a combination of the two.
In a post-pandemic landscape, bleisure is gaining popularity with accommodation providers facilitating business-friendly services, such as high-speed internet, workstations and conference rooms.

Prioritisation of health and wellness - Globally, health and wellness is a thriving trillion-dollar market. Within the Irish context, holiday makers interested in wellbeing have become increasingly popular and service providers have responded by delivering unique yoga retreats, organic food offerings and immersive experiences that facilitate engagement with Ireland's unique landscape and nature.

The impact of ESG

Tourism has a massive impact on global carbon-dioxide emissions and leisure providers are engaging with ESG to work out how they can lessen their impact and make a positive difference.

According to research, 83 percent of global travelers think sustainable travel is vital, white 61 percent saying the pandemic has made them want to travel more sustainably in the future. Businesses that do not engage in ESG risk becoming outliers. As they could lose increasingly environmentally conscious travelers.

In Ireland, the National Tourism Development Authority, Fáilte Ireland, is embedding a more sustainable approach into its regional tourism strategies. KPMG is supporting Fáilte Ireland with a decarbonisation project for the cruise boat-hire sector, introducing lessons learned from other destinations, and assessing opportunities to green and renew the fleet.

KPMG believes that four key areas are driving positive change in this area. Specifically, risk, consumer demand, investor demand and reporting and competitive advantage.

This edition of Global Leisure Perspectives places ESG centre stage and the tourism sector must increasingly take responsibility for climate action. KPMG in Ireland are ready to help with what's next and support the industry in their endeavours.

How technology is revolutionising leisure

Hospitality customers want exciting, innovative, and engaging experiences, which emerging technologies can enable. Next-level technologies, like Extended Reality (XR) and the Metaverse, are helping brands differentiate themselves and deliver experiences consumers seek. Recent research has shown that more than one-third of U.S travelers are keen to embark on a multi-day virtual-reality or augmented-reality travel experience.

These next-level technologies can create deep immersion experiences, while allowing for service providers to create high-value touchpoints leading to real revenue.

Within the Irish context, service providers have embraced these next-level technologies and are utilising them to bring the island's historic importance, heritage and cultural diversity to the virtual visitor.

It is clear that the travel, leisure and hospitality industries are transforming. However, strong headwinds remain on the labour front and employee shortages aren't going away. Irish employers are responding to labour shortages by offering more worker-friendly shift patterns and increasing pay rates, according to a study by Fáilte Ireland.

We believe that technology can be further used to tackle labour shortages and reduce staff turnover and ultimately, raise a new generation of leisure and hospitality worker with a passion for serving others.

Mergers and Acquisitions

The Irish market has seen an increased level of owner operated trading hotel assets coming to market during 2022 and 2023, in particular in regional locations, with notable examples including the Imperial Hotel in Cork, the Park Hotel in Kenmare and Ballymascanlon House Hotel in Louth.

Increased debt costs resulting from rising interest rates have compounded the impact of labour and energy cost inflation to increase hotels' underlying costs. However, hoteliers have largely been successful at passing on cost increases to consumers with average room rates reaching record levels as demand returns to pre-pandemic levels and a sizeable minority of hotel rooms are temporarily taken out of the market for use as direct provision accommodation by the Irish State.

As a result, both family office/high net worth investors and operator groups have been active acquirers in the market with acquisitions perceived as providing both attractive yields on capital and a modicum of protection against inflation. For similar reasons, hotels are currently able to attract a reasonable level of debt financing, contrary to some other real estate sectors, from both the Irish pillar banks and alternative debtfunds. Despite the above, most assets brought to market have been single asset portfolios with the exception of a single large well-publicised hotel portfolio, which is yet to trade. We would expect to see further consolidation in the market as smaller owner occupiers continue to exit the market.

Finally, whilst planning applications for the supply of new hotel stock, in urban centres like Dublin, are continuing there is some evidence that two years of very high construction cost inflation has impacted the viability of new development with several projects being mothballed. As a result, constrained supply may help to support valuations and make acquisition rather than ground up development more attractive.

[1] Sustainable Tourism in Ireland Understanding the opportunity (failteireland.ie)

Driving customer loyalty

In customers' eyes, value isn't just about price and experience, but purpose. Innovation, incentivization and personalization, rooted in a data-led understanding of what makes customers tick, can inspire loyalty.

Customer value = price + experience + purpose

When it comes to value, values matter, says Stephen Harwood, Customer Experience Manager at KPMG in the UK.

You would expect, in the current cost-of-living crisis, to see a decline in customers' discretionary spend on leisure activity. But these are extraordinary times. After the pandemic lockdowns, customers are keen to get out and about and make up for lost time. And that is helping to offset some belt-tightening measures.

So, what will define and differentiate a successful leisure business? According to our KPMG Customer Experience Excellence study[1] (CEE), value can drive future success. But the customer's perception of value is not just about the price and the experience anymore. It's also about the "purpose".

Does your purpose match your customer's?

An essential part of the value equation is how well the organization's purpose resonates with the customer. Over time, we have seen integrity — the level of trust in an organization — become more prominent in determining customer loyalty and their likelihood to recommend. And with integrity comes purpose: namely what the organization stands for, over and above making profits for shareholders.

In fact, our research identifies that customer experience excellence is rooted in organizational purpose. We're seeing customer sentiment switch from "buying from" to "buying into" brands. Take Everyman Cinemas, who rank 16th in our UK Customer Experience Excellence report 2022. It has transitioned from a large multiplex cinema format to more intimate local venues, with enhanced comfort, food and drink. Everyman provides a lifestyle experience, which customers rate and buy into.

Increasingly, customers buy into the ethos of the brand, as well as the social, environmental and ethical pledges it makes. Leisure businesses that deliver on these measures can stand out.

But it's not quite as simple as that. Customers' assessments of the purpose of a business, and its social, environmental and ethical stance, should be balanced against the price they are willing to pay. In our study, nearly half of customers say they are willing to pay more for goods and services that reflect their personal values. Just 15 percent say they are not.

> Customer experience excellence is rooted in organizational purpose. We're seeing customer sentiment switch from "buying from" to "buying into" brands.

Purpose is an essential part of Integrity. It has become more important as a consequence of heightened consumer concerns over the environmental and societal actions of companies.

1. The KPMG Customer Experience Excellence study (CEE) annually defines those organisations leading the way in terms of delivering great customer experiences, not just in leisure, but across all sectors. The study, incorporating over 300 brands, enables KPMG to gather, analyse and share learning and latest trends.

What makes Hilton a top performer?

Hilton Hotels and Resorts is the best performing hotel group in our CEE study of 300 brands. It ranks an impressive 13th in our 2023 study, up 30 places on 2022.

Hospitality is all about "people serving people". Hilton ensures that its purpose, set 120 years ago by founder Conrad Hilton, and the values that underpin it, permeate every aspect of the guest experience. So, in common with other top performing companies, the employee is at the center of the Hilton approach. The group encourages team members to use their initiative to make every guest feel welcome in the best way they can. Training focuses on soft skills, to turn a nice stay into a great, memorable experience for the customer.

Hilton's brand and proposition are built on listening to what customers want. And that includes environmental and social initiatives too. So, when the Hilton London Metropole underwent a large-scale refurbishment, it took the time to listen to guests' needs. They said they wanted to see more evidence of sustainability, so the hotel partnered with sustainable suppliers. Its new uniform supplier, for instance, uses only British sustainably sourced materials and recycled plastic bottles, while a menu is created around locally sourced ingredients.

More broadly, Hilton believes it is important to assess its environmental and social impact across its entire ecosystem. It tracks the environmental performance of every single Hilton hotel — including their energy and water consumption and waste generation — using its LightStay technology platform. It calculates reductions in carbon emissions and even generates customized estimates of the environmental impact of corporate customers' events.

As well as sustainability, Hilton runs several social initiatives. Hotels proactively help team members to navigate the cost-of-living crisis, with free meals, pay rises and discount schemes. Great Place to Work, the global authority on workplace culture, ranks Hilton as the top hospitality company in the UK. It also places as the top hospitality company in the Best Workplaces for Women in the UK.

This link between value and values is increasingly important to customers. Providing a great leisure industry experience, while demonstrating that you care for your people and the environment, resonates with customers. It means that your purpose fits with their purpose and, when it comes to value, these values matter.

Hilton Hotels' 30 place improvement in our index is a powerful example of how purpose fueled, values-driven experiences drive commercial success. Drawing on a purpose set some 120 years ago by its founder, Conrad Hilton, it continues to ensure that purpose, and the values that underpin it, permeate every aspect of the guest experience.

Luxury industry prepares for new Chinese consumer in post-pandemic travel boom

After three years in relative isolation, China has re-opened its borders. A massive shift in the global luxury market is taking place as Chinese consumers resume leisure travel. To attract shoppers on holiday, the industry must prepare for new types of consumers, explains Anson Bailey, Head of Consumer & Retail, ASPAC, KPMG China.

Their bags are packed; their travel documentation has been renewed; their visas are ready. Now that COVID-19 pandemic restrictions have been lifted, Chinese leisure travelers are taking to the skies once again. But where and how they travel, and what they might buy while they are overseas, hinges on a complex new set of motivations.

KPMG's latest study, *Luxury Redefined: Building trust with Chinese consumers through authenticity and integrity*, offers insight into consumer behaviors, as well as challenges and opportunities for retail businesses.

The survey, across 2,653 consumers in cities in the Chinese Mainland and Hong Kong (SAR), is supplemented by interviews with executives from the luxury industry. It clusters respondents into seven distinct types. Data suggests that these consumers move from cluster to cluster as their experience with the luxury market evolves, due, in part, to socioeconomic factors like increased disposable income. The analysis drills down into the characteristics of each consumer type, their propensity to travel and their purpose for travel and destination, as illustrated in figure 1.

Figure 1

Consumer type	Characteristics	Willing or highly willing to travel post COVID-19	Main purpose for travel	Preferred destinations
Luxury newcomers	• Aged 40 or above • Influenced by family, peers and sales representatives • Do not spend much time researching products	• 68%	• To experience culture, relax and retreat.	International: • Sydney, Seoul Domestic: • Hainan, Hong Kong
Status reflectors	• Heavily represented among consumers aged 25-34 • Newly acquired purchasing power • Make purchases that reflect their social status	• 81%	• To experience culture, relax and retreat. To visit family and friends, or to go on honeymoon	International: • Milan, New York Domestic: • Hong Kong
Community approval seekers	• Heavily represented among consumers aged 18-24 • Heavy reliance on information from social media and influencers • Spend time at social events, parties and virtual environments	• 69%	• To experience art, culture and history	International: • Tokyo, Singapore, London Domestic: • Hong Kong, Macau
Luxury connoisseurs	• Value high quality • Relatively higher knowledge of luxury brands • Make purchases to demonstrate their uniqueness	• 78%	• Relaxation, retreat and adventure	International: • Tokyo, Singapore, London Domestic: • Hong Kong, Macau
"New luxury" pioneers	• Favor artisanal, high quality and high-priced goods • More open to brands that promote new ideas, advanced designs/concepts, and contribute to society • Care more about environmental impact and social responsibility	• 77%	• Shopping	International: • Milan, New York Domestic: • Hong Kong, Macau
Cultural resonators	• Strong emotional connection to Chinese culture • Prefer purchasing Chinese brands • Relatively young with most aged 18-34	• 61%	• Relatively hesitant to travel post COVID-19; prefer domestic destinations	International: • Milan, Paris Domestic: • Hainan, Chengdu
Luxury investors	• Most aged 25-44 • Spend a large percentage of their income on luxury goods • Focus on resale value and limited-edition items • Likely to attend art or fashion shows to obtain information about the luxury market	• 68%	• Shopping	International: • Milan, New York Domestic: • Hainan, Chengdu

Source: KPMG China, Luxury redefined: Building trust with Chinese consumers through authenticity and integrity, 2023.

Adapting to new consumer behaviors

Purchasing behaviors across these consumer types are reshaping the way in which the leisure industry must respond. Notable trends are emerging.

The rise of the individual in purchasing decisions

The escalation in e-commerce platforms, including leisure travel sites, has shifted decision-making power from the Chinese family unit to the individual. Leisure industry retailers must understand the "me" rather than "we" consumer mindset and become better at customer segmentation to target and service this growing sense of self.

For luxury retail and hospitality brands, there is also scope to explore customization services with customers who want tailor-made products and services that showcase their uniqueness and personality.

Demand for sustainable travel coincides with growing social awareness

Higher levels of environmental and social awareness are prompting some Chinese consumers to reconsider how their purchasing decisions impact the world around them. Young people, most notably, are adopting an environmentally friendly lifestyle. They shop, for instance, for vintage clothes and eco-friendly products. This is backed by the rise of a second-hand market in China, with spending exceeding 1 trillion Renminbi (RMB) in 2020.

This trend is similarly reflected in growing demand for sustainable travel. Our *Luxury Redefined* survey reveals that 90 percent of Chinese mainland respondents consider sustainability when making travel decisions and plans. In response, retailers must communicate more effectively their environmental, social and governance (ESG) story to consumers, not only in their core branding and marketing, but also on digital and offline channels and other consumer platforms.

Boost to luxury shopping revenues expected as travel resumes

The pandemic has had a lasting impact on Chinese consumers' shopping behaviors. For the past three years, they have grown accustomed to shopping domestically. Though outbound Chinese travel is picking up, it is too early to tell how much incremental growth brands will achieve.

Nonetheless, short-haul travel to Hong Kong (SAR) returned in the first quarter of 2023; long-haul travel is expected to surge in the second half of 2023. Some adjustment to the proportion of domestic versus international spending on luxury items is anticipated.

For brands, the challenge is to ensure that any shortfalls in domestic revenues are recaptured overseas. To do this, retailers must better understand the spending patterns of new types of Chinese consumers and make adjustments to their operating models.

> Leisure industry retailers must understand the "me" rather than "we" consumer mindset and become better at customer segmentation to target and service this growing sense of self.

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Beyond B&B: New trends for hospitality in India

The hospitality industry in India is undergoing significant transformation as it caters for customers with more sophisticated demands and expectations. Chintan Patel, Partner, Deal Advisory at KPMG in India, reports on the changing dynamic.

India has innovative possibilities for every type of travelers, whether the ultimate digital hotel experience; a hybrid work-and-leisure stay; a resort that combines luxury with sustainability or just a wallet-friendly option.

Innovation reinvents hospitality in India

An enhanced digital experience

Digital services are replacing customer-facing delivery in some hotels. It means minimal contact between guests and staff. Instead, technology-assisted solutions, like contactless check-in and check-out, QR-code supported ordering and self-service kiosks do the customer service. Mobile apps, digital tablet menus, voice control and biometrics make it happen. Though an enhanced digital experience is one way for hotel groups to meet customer needs and secure competitive advantage, it is likely to come at significant cost.

Bleisure combines business with leisure

Bleisure defines a new type of travel: neither fully business nor fully leisure, but a combination of the two. A traveler might, for instance, tag a few days' sightseeing onto a business trip, and perhaps bring along family or friends. A holidaymaker might need to fit in work time around downtime on the beach. Bleisure, pitched at a better work-life balance, is gaining popularity post-pandemic.

In response, hotels are providing business-friendly services, such as high-speed internet, workstations and conference rooms for bleisure travelers. Some even provide "workcation" packages. There are hotels, for instance, providing a dedicated plug-and-play office area that can be combined with add-ons, such as food and beverage options, with discounts for overnight stays.

Health and wellness

Since the COVID-19 pandemic, health and wellness has become a bigger priority for the hospitality industry. Several hotels in India now provide fitness facilities for guests, along with yoga and meditation sessions, and nutritious food and wellness therapies, like traditional Indian Ayurveda remedies.

Globally, health and wellness is a thriving trillion-dollar market. Hospitality venues, especially those with existing facilities and bespoke treatments, are well positioned to capture a significant share.

A more sustainable experience

Sustainability is a big customer concern. Hotels in India are increasingly cognizant of the need to improve sustainability by eliminating single-use plastics, adopting energy-efficient appliances and lighting, and promoting local and organic produce.

Eco-friendly resorts are becoming popular in India. They combine luxury with eco-friendly practices, like using renewable energy, rainwater harvesting and green roofing.

The Shangri-La in Bangalore, for instance, mitigates its impact on climate change by deploying a renewable solar power plant that provides 90 percent of the hotel's electricity. Meanwhile, the Shangri-La Academy provides training to staff in energy and cost-cutting, as well as waste management.[2]

Immersive virtual reality

A rise in online gatherings has prompted several hotels in India to offer hybrid event services. They blend the face-to-face and virtual experience, using advanced audio-visual technologies and live streaming to connect remote guests with in-person participants.

> With the help of big data, customer profiling and predictive analytics, hospitality providers are informed by their customers' past browsing or purchasing habits. They use these insights to refine their offer and provide hyper-personalized tailored services and immersive guest experiences.

2. Hotelier India article, Hospitality goes green, https://www.hotelierindia.com/operations/hospitality-goes-green, accessed on 22 February 2023.

Hyper-personalization at your service

Increasingly, guests seek personalized experiences. Hotels in India are responding with customized menus, in-room amenities and tailored experiences like city tours and cultural activities. However, hyper-personalisation goes much further.

King's Mansion in Goa, for instance, offers a wellness consultancy. Guests submit a saliva sample prior to their stay, which is analyzed at a local genetics laboratory, and used to tailor a wellness programme.

An authentic experience

Many travelers seek authentic local experiences. These types of tourists tend to be less interested in extravagant shows of wealth. They spend carefully and meaningfully, with consideration for their impact on the world.

Hotels respond with activities and excursions that reflect the local culture and heritage. They take guests on food tours and offer art classes and visits to local markets and historic sites. Distinctive experiences, which give back to local communities, as well as specialist properties, adventure holidays and relaxation retreats, are also in demand.

Some hotels curate unique experiences for their guests. Raffles in Udaipur, for instance, provides a full moon cruise, guided farm visits and lessons in coffee making and tea brewing.

Deal seekers

Rising inflation is impacting consumer and business purchasing power. Reduced disposable income is depressing demand for hospitality and for meeting, incentives, conference and exhibition services.

Price-sensitive customers may be open to timely deals. Hospitality players can respond with personalized offerings that reflect customers' prior buying patterns and design innovative packages to improve hotel occupancy and sustain existing average-room-rate levels.

The rise of the franchise model

Most hotels in India operate on management and ownership contracts. Franchising has grown in popularity in recent years, but mostly for lower-ranked hotels. Now, as the Indian hotel business evolves, brands' attitudes to franchising are shifting. Large global and Indian-origin hotel brands are investigating franchising options. Increased availability of data, insightful analytics, astute owners, and qualified third-party operators are the primary drivers of this transition.

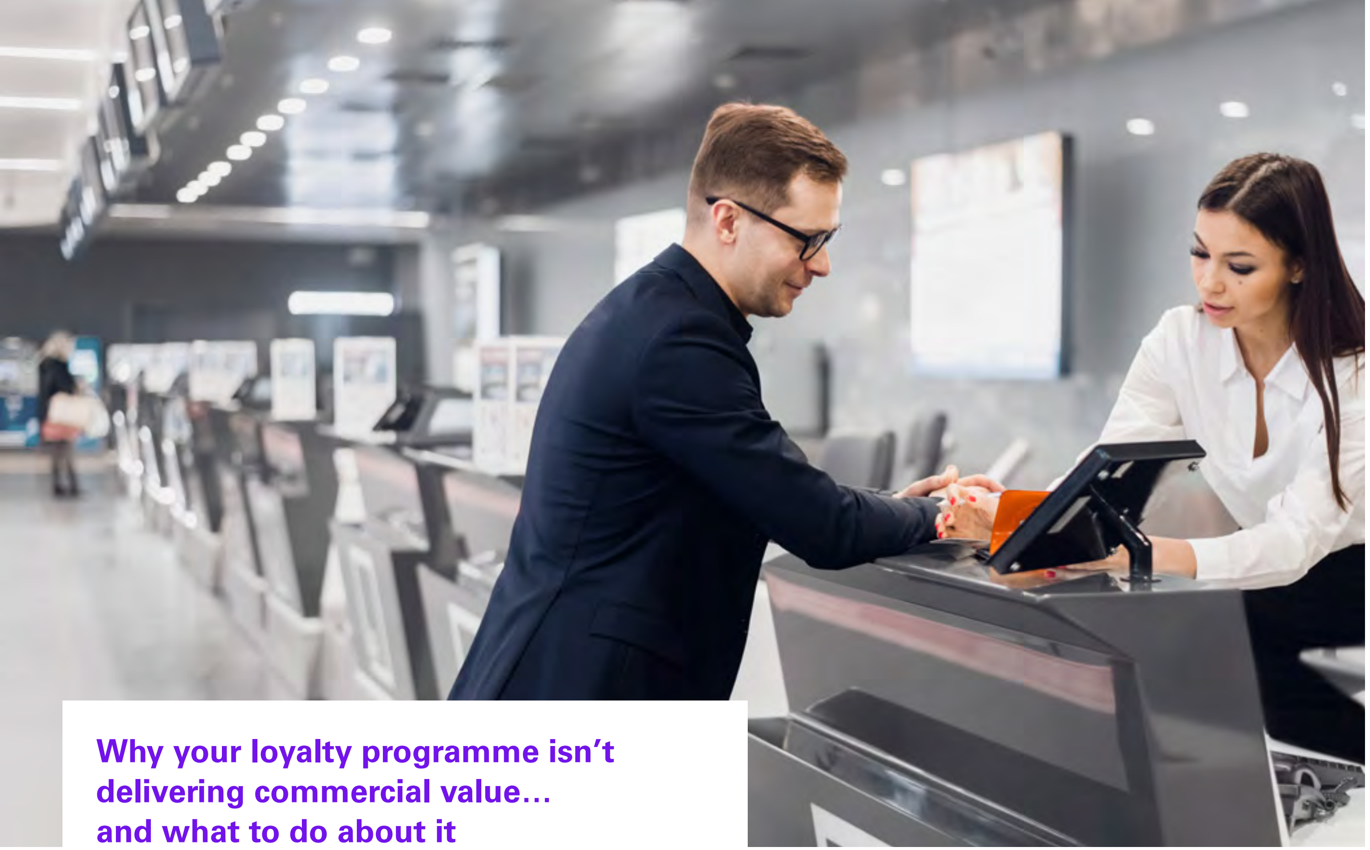
Branded residences

Residences linked to exclusive hotels, are slowly gaining traction in India's luxury property market. Branded residences blend hotel-style elegance, aesthetics, exclusivity, services and amenities with home ownership. Most developments are dual-branded or mixed-use. Residences are located close to hotels to benefit from the synergies and efficiencies of shared resources.[3]

Transformation opportunity

If the hospitality industry in India seizes upon innovation, it can revolutionize the way in which it operates and extend its appeal to a wider consumer audience. To do that, players must continue to be flexible, invest in technology and create unique and personalized experiences that meet and exceed customer expectations. Hoteliers that adapt to changing consumer appetites will be better placed to stay ahead of the curve in what could become an increasingly crowded market.

3. Hotelivate report, 2022 Indian Hospitality – Trends and Opportunities, https://hotelivate.com/wp-content/uploads/2022/09/TO-2022.pdf, accessed on 22 Feb 2023.



Why your loyalty programme isn’t delivering commercial value… and what to do about it

The airline sector is the ultimate master of the loyalty platform. Others in the leisure industry struggle to emulate its success. Lisa Bora and Naren Sanghrajka at KPMG Australia, ask what makes a loyalty programme work and deliver value.

Loyalty schemes deliver positive value when incremental revenue, generated from increased customer retention and changes in behavior, offset the costs of developing and maintaining the programme itself.

> The terms customer loyalty and loyalty programme are often conflated. A loyalty programme alone is not enough:
>
> Customer loyalty is an emotional relationship between you and your customer. Loyalty manifests itself in your customers willingness to engage with and repeatedly purchase from you, rather than your competitor.
>
> Loyalty programmes are a structured means to reward existing customers for their loyalty, using incentives.

Why airlines are masters of loyalty

The airline sector does loyalty programmes exceptionally well. Their schemes offer points that can be earned and burned quite easily and conveniently. But there is also social currency to be gained from being a member of an exclusive “club”. Few people can claim “platinum frequent flyer” status, but many will aspire to it. And so, the dynamics of high demand and limited supply make success difficult to replicate in other leisure industries. Airlines, quite simply, have a product that naturally lends itself to customer demand for priority status.

In return for mastering the integration of loyalty programmes across their organizations, airline businesses have a rich seam of data. Using sophisticated data analytics, they can drill down into their ecosystems and monetize loyalty insights. And these insights, and the access they give to members, become a new form of currency. It is no surprise that the loyalty division is fast becoming the most profitable component in an airline business’s balance sheet.

What the leisure industry must do better

Loyalty programmes in the leisure industry are growing at pace, with forecast growth of 9.2 percent from 2023 through to 2032. Though growth is significant, schemes are less sophisticated than those in the airline sector. Some lack the basic "earn-and-burn" construct; others struggle to extrapolate data for insights, which could be ploughed back into the business.

Though programmes are designed to drive repeat purchases, many, according to eight-year analysis by KPMG, do not optimize the true economic benefits. We find that 88 percent of organizations run earn-and-burn loyalty programmes, but:

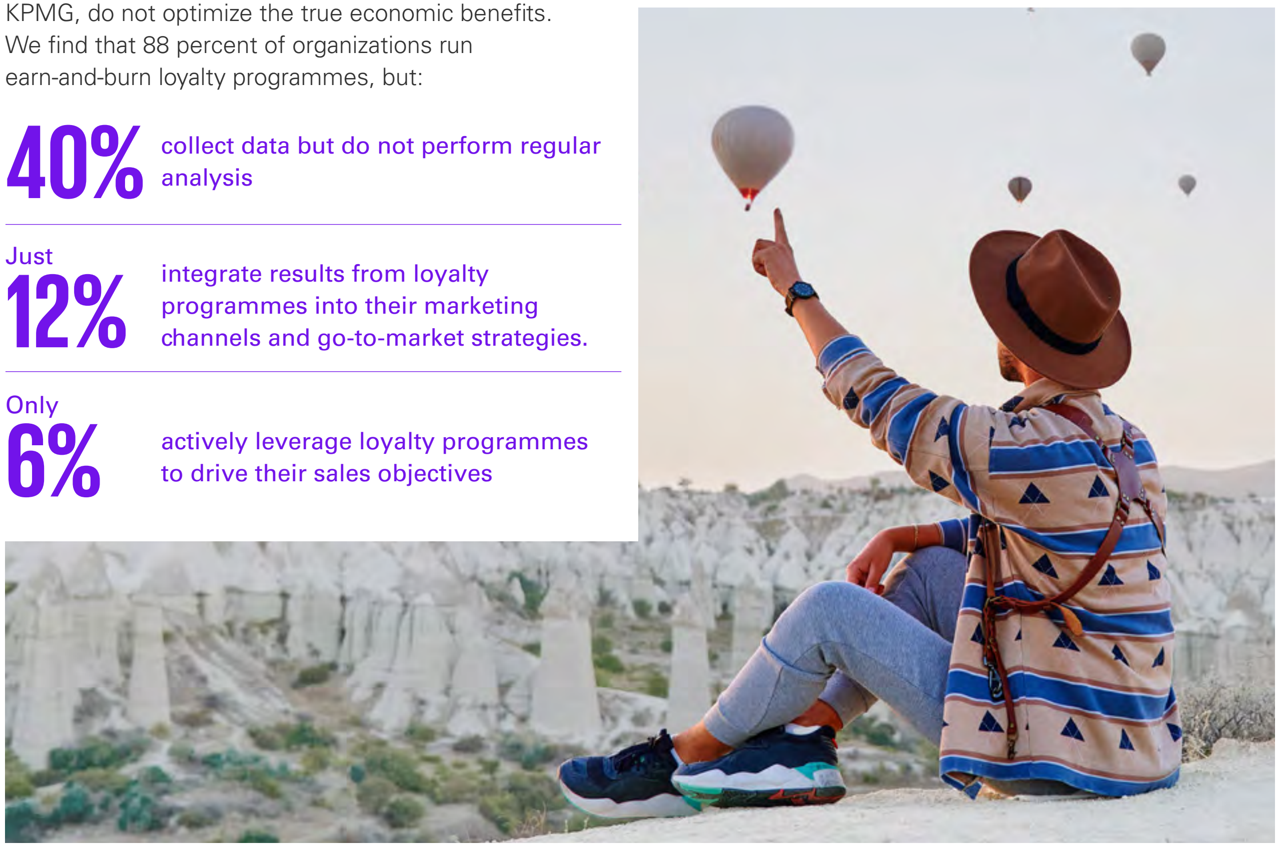
40% collect data but do not perform regular analysis

Just **12%** integrate results from loyalty programmes into their marketing channels and go-to-market strategies.

Only **6%** actively leverage loyalty programmes to drive their sales objectives

To evolve their loyalty programmes, hotel, tourism and leisure operators should get better at leveraging their extensive data pools to deliver more varied and personalized benefits to members. They should be accompanied by more attractive incentives and experiences that reward participation.

Ultimately, a well-engineered programme can deliver better commercial returns through lower wastage and higher engagement, with operational efficiencies and data transparency central to success.



Why most point-based loyalty schemes fail to realize full value for retailers and shoppers

All customers are treated the same, with the same offers driven by the same triggers
Low active participation

Margins eroded by rewarding shoppers for behavior that would have occurred anyway
Points deemed too hard to earn and/or spend

Lack of detailed and robust customer data to support personalization and execution
High program churn

High operating costs to set up and maintain a commercially beneficial loyalty program
Low incentive to increase spend

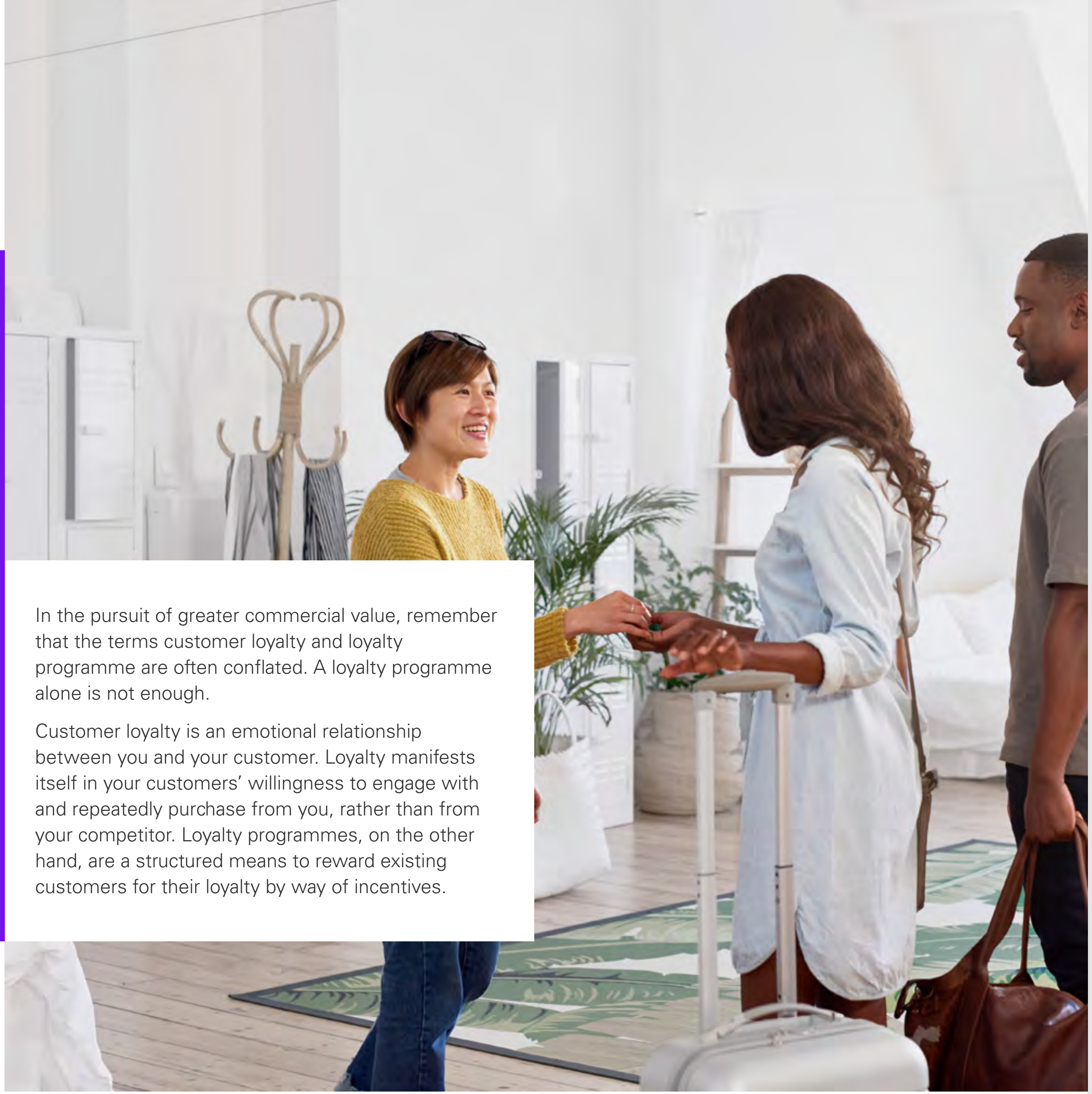
How to overcome friction points to fulfil value

Getting genuine commercial returns from loyalty programmes hinges on resolving three barriers:

The disconnect between loyalty programme measures and company-wide commercial metrics. Where these measures are closely connected, loyalty programmes can deliver on primary organizational metrics, such as revenue growth.

Difficulty in measuring incremental returns. Though often the main stated goal of loyalty programmes, incremental returns are, typically, difficult to prove empirically.

Lack of transparency and understanding of true programme costs. Reporting on end-to-end costs, such as technology, partnerships, operations and customer rebates, will help to inform trade-off decisions around investment in specific loyalty programme initiatives vs broader sales and marketing tactics.



In the pursuit of greater commercial value, remember that the terms customer loyalty and loyalty programme are often conflated. A loyalty programme alone is not enough.

Customer loyalty is an emotional relationship between you and your customer. Loyalty manifests itself in your customers' willingness to engage with and repeatedly purchase from you, rather than from your competitor. Loyalty programmes, on the other hand, are a structured means to reward existing customers for their loyalty by way of incentives.

The impact of ESG

From the aircraft that fly to and from destinations; to the hotels, restaurants and must-see sights that attract millions of tourists every year, every action has environmental, social and governance (ESG) consequences. Leisure providers are engaging with ESG and working out how they can lessen their impact and make a positive difference.

How global tourism is putting ESG on the map

Tourism has a massive impact on global carbon-dioxide emissions. James Chilton at KPMG in Ireland, explores what the industry can do to help combat climate change and preserve bio-diversity, while continuing to operate competitively.

Tourism has experienced phenomenal growth in the past twenty years. It is a pervasive industry, linked to almost every aspect of the international economy. Positives of tourism include support for heritage and culture, and socio-economic benefits for communities and destinations. But there are negatives too: tourism has an adverse impact on the natural environment and biodiversity.

Globally, tourism accounts for around eight percent of carbon-dioxide (CO_2) emissions, half of which are caused by transport. The World Tourism Organisation predicts that transport-related CO_2 emissions from tourism will increase by 25 percent between 2016 and 2030, accounting for more than five percent of all man-made emissions. During the same period, international and domestic passengers are expected to increase from 20 billion to 37 billion,[4] illustrating the size of the problem the world faces.

Of course, tourism can help to make places better for those who live there and those who visit, but it is not enough. Tourism must take responsibility for biodiversity and climate action too. Key stakeholders — national and local government, transport, leisure and hospitality providers, and tourists — must contribute to a whole-industry response that works.

However, climate action should also take place within the context of securing continued economic revenue for the industry overall, in order that it can deliver, in turn, those wider regional benefits.

What's driving change?

01 Risk

From a macro perspective, risk includes the negative impact on a destination due to climate change and biodiversity loss, as well as, from a compliance perspective, risk to the ongoing viability of tourism businesses. The impact of COVID-19, for instance, demonstrated the need for more resilient and vibrant destinations, and for industries to work together and in harmony with local communities.

02 Consumer demand

Visitors want more sustainable travel options. A survey by Expedia Group among 11,000 consumers in 11 markets, found 90 percent seek sustainable options when travelling.** However, 70 percent admit to feeling overwhelmed by the process of becoming a more sustainable traveler. In response, companies like Booking.com and TripAdvisor are helping customers to access information more easily to reduce the negative impacts of their trips and boost the positives.

03 Investor demand and reporting

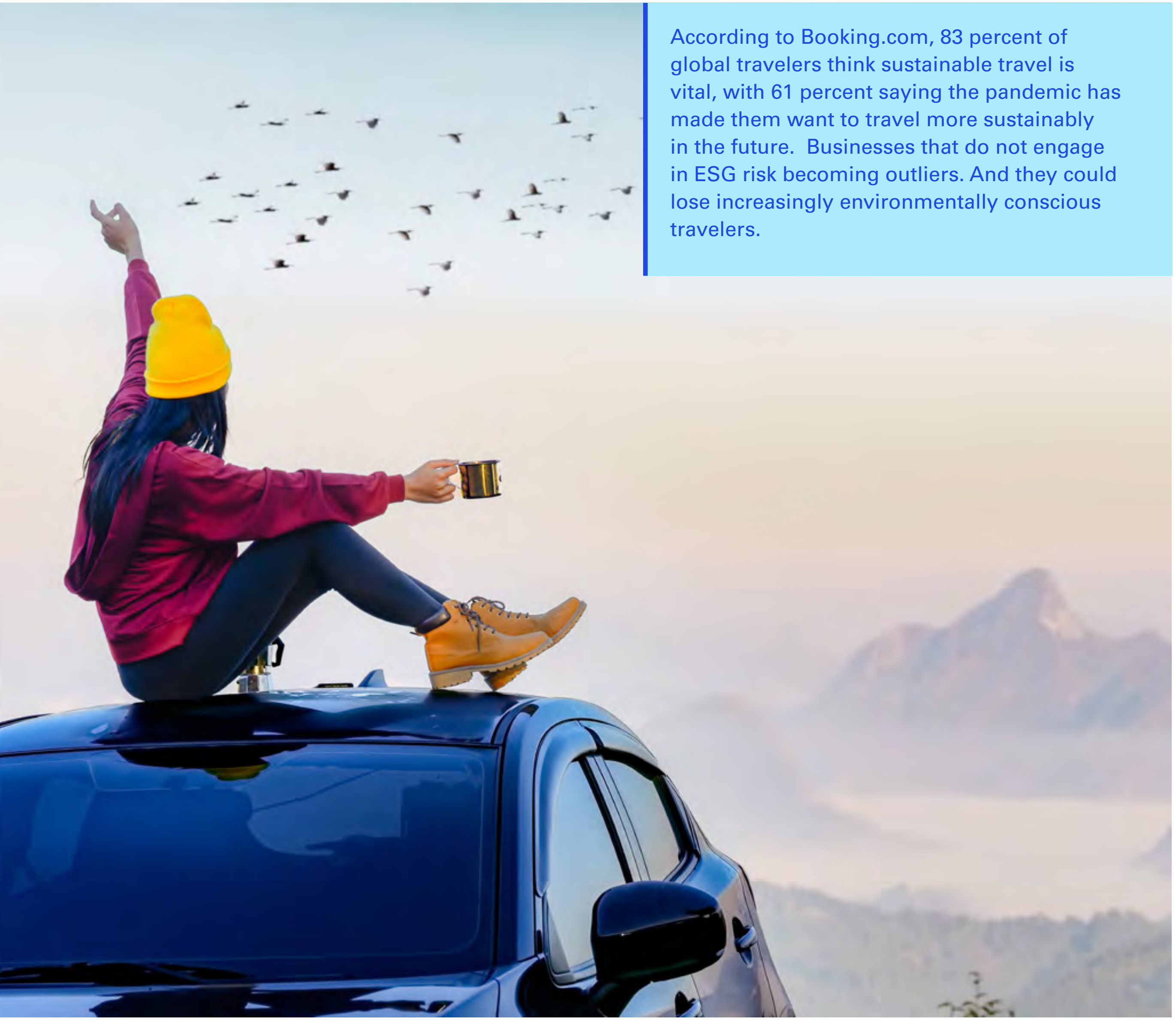
Increasingly, investors demand that the businesses in which they invest operate ethically and responsibly. For companies in the EU, there is an obligation to comply with the Corporate Sustainability Reporting Directive too.

04 Competitive advantage

According to Booking.com, 83 percent of global travelers think sustainable travel is vital, with 61 percent saying the pandemic has made them want to travel more sustainably in the future.* Businesses that do not engage in ESG risk becoming outliers. And they could lose increasingly environmentally conscious travelers.

* https://www.unwto.org/news/tourisms-carbon-emissions-measured-in-landmark-report-launched-at-cop25
** https://advertising.expedia.com/about/press-releases/sustainable-travel-study/

4. https://www.unwto.org/news/tourisms-carbon-emissions-measured-in-landmark-report-launched-at-cop25



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How tourism bodies are responding

Increasingly, tourism strategies for national and regional destinations are becoming climate-action focused.

In Ireland, the National Tourism Development Authority, Fáilte Ireland, is embedding a more sustainable approach into its regional tourism strategies. KPMG is supporting Fáilte Ireland with a decarbonisation project for the cruise boat-hire sector, introducing lessons learned from other destinations, and assessing opportunities to green and renew the fleet.

Slovenia is seeking competitive advantage with its Green Scheme. It certifies destinations, attractions and businesses, including hotels and restaurants, that engage in sustainable tourism.

The Singapore Tourism Board and the Association of Convention and Exhibition Organisers and Suppliers are working on an ESG framework, together with a data and analytics pilot, to collect, quantify and report carbon emissions from events. The goal is to generate actionable insights to enable net zero by 2050.

If you're not yet on board with ESG, get on board

Initiatives by tourism operators are helping to put ESG on the global map and encourage sustainable behaviors. While these umbrella organizations are taking the lead at a local, regional and national level, it is down to the participants themselves — in hospitality, leisure, travel and connected industries — to deliver on the ground.

A whole-industry response can help, in turn, to stem some of tourism's catastrophic impacts on climate change and biodiversity, while enabling 37 billion travelers, anticipated by 2030, to visit destinations sustainably and responsibly. For the tourism industry itself, acting now on ESG is, in effect, preserving its right to operate and compete in the future.

Hong Kong (SAR), China reopens to visitors: What's in store for the hotel sector?

Post-pandemic, Hong Kong (SAR) is expecting a resurgence in visitors. Among them are environmentally conscious millennials and Gen Z, steering hospitality towards greater ESG compliance. KPMG China's Alan Yau, Head of Real Estate, Hong Kong, and Heidi Chan, Head of Hospitality, Hong Kong, discuss what's going on in the hotel sector in Hong Kong.

After almost three years of travel restrictions to contain the COVID-19 pandemic, Hong Kong (SAR) is open to international visitors. In January 2023, visitor numbers jumped 70-fold, compared with January 2022, to nearly 500,000 arrivals.

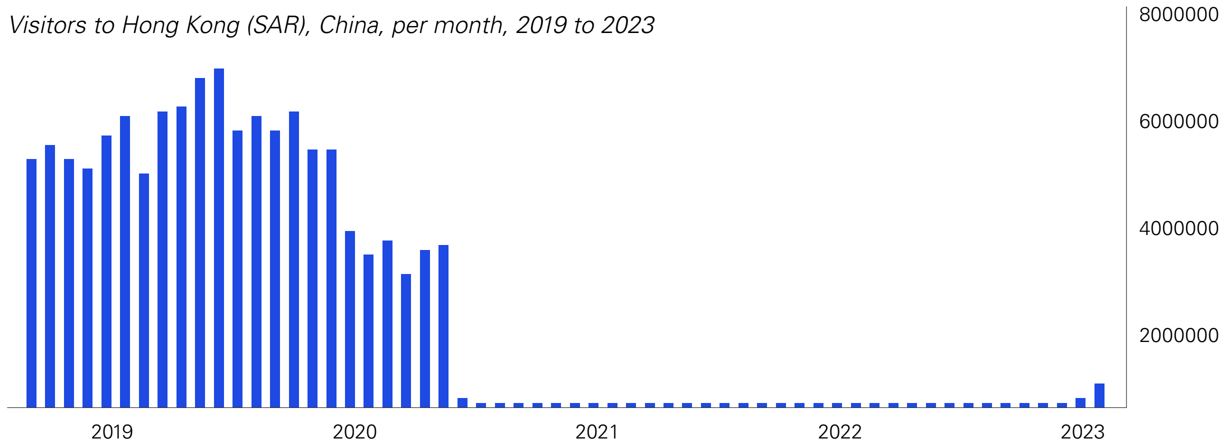
The Hong Kong Tourism Board intends to capitalize on momentum. It has launched a massive campaign to promote Hong Kong globally, and drive its tourism, retail and investment sectors. A strong rebound in trade fairs, exhibitions and conferences, helped by popular events like the Hong Kong Rugby Sevens and Art Basel Hong Kong, is expected in 2023.

Reasons to be optimistic

As visitors return to Hong Kong, things should be looking up for the hotel industry too. The sector is taking its readings from Europe and the US, where hotel business is back to around 80 to 90 percent of pre-pandemic levels. Elsewhere in China, Macau (SAR) — which is open again to inbound travelers and has renewed operators' gaming licences — anticipates a big bounce-back in tourists and gaming revenues this year.

In 2022, Hong Kong had close to 90,000 keys, likely to grow to around 92,000 by 2026, and more than 11,000 guesthouse rooms. Some new hotels opened during the lockdown period, while owners and operators took time to improve or create value from existing assets. Investors targeted 3-star and 4-star hotels for value-add opportunities or conversion into residential rentals.

Visitors to Hong Kong (SAR), China, per month, 2019 to 2023



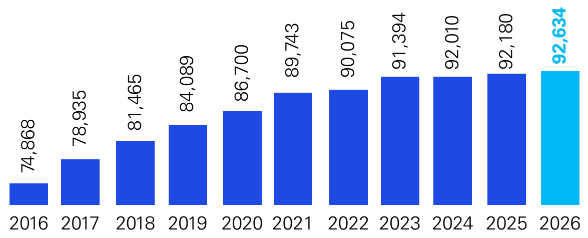
Sources: Tradingeconomics.com, Census and Statistics Department, Hong Kong

And so, despite significant pandemic disruption to the hospitality sector in Hong Kong, the market saw no significant distressed assets.

But there are challenges ahead for operating profits. Labor shortages will incur additional hiring and training costs. Inflation continues and interest rates, though expected to grow modestly, could impact the capitalization rate. Even so, favorable trends indicate that the hotel industry has turned the corner. Hotel operators and investors expect a more positive outlook, with a gradual influx of Chinese Mainland and international tourists into Hong Kong.

Hotel owners and operators are looking to technology to speed up efficiency, improve the guest experience and ease demand on people resources. They are using analytics to mine their vast pools of data for customer insights, which will, in turn, increase guest satisfaction, improve revenue and drive profitability.

Hotel supply 2016-2026



Source: Hong Kong Tourism Board

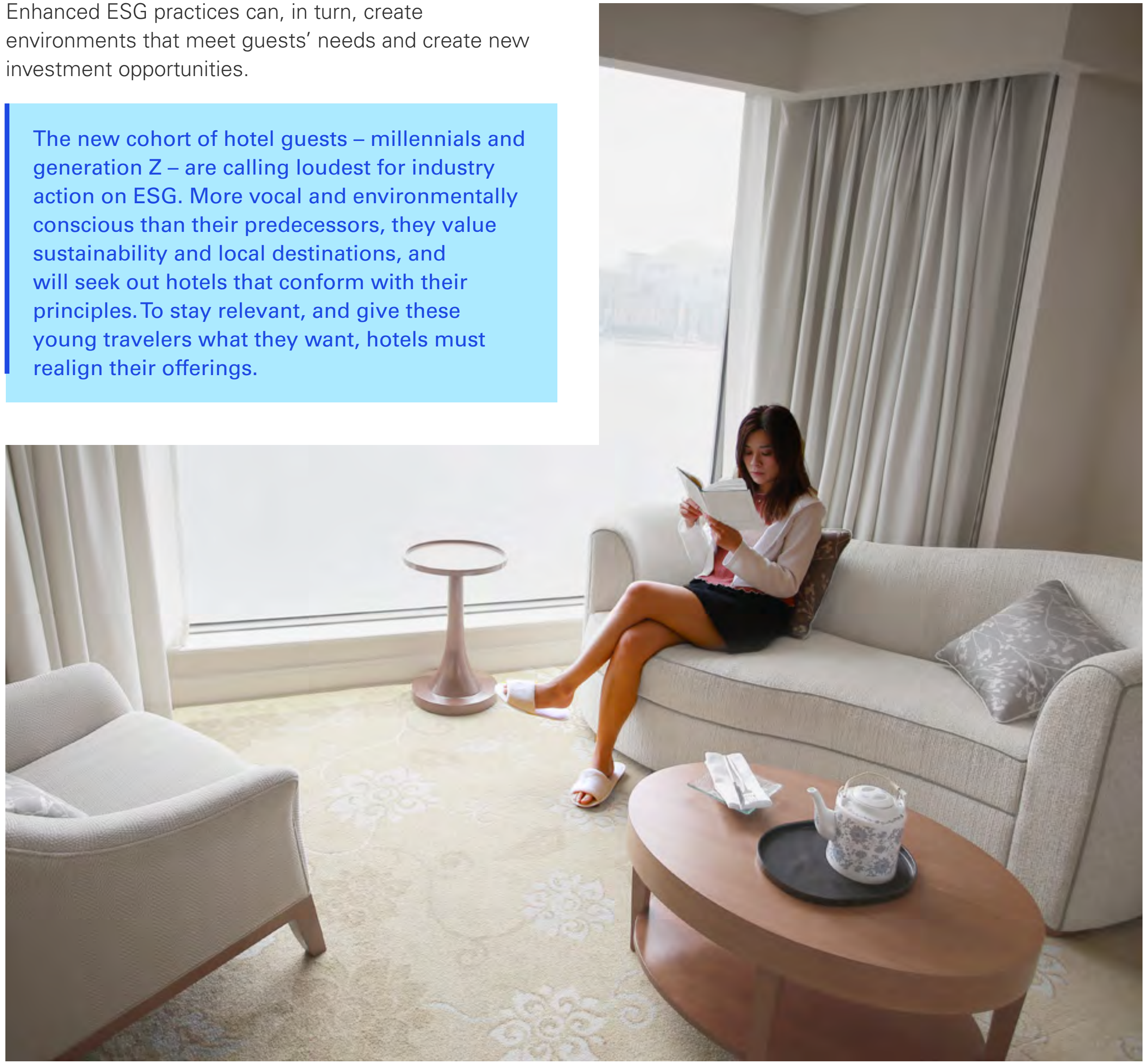
The influence of millennials and Gen Z on ESG

ESG is making a big impact in the hotel sector in Hong Kong – and will reshape how they operate. Listed and multi-national hotel groups are required to set out their pathways to net-zero. ESG and performance tracking are demanded increasingly by hotel investors, operators and travelers. Waste and energy management, decarbonisation, reduction in single-use plastics and sustainable sourcing all demand attention, with strategy driven from the board-level down.

However, it is the new cohort of hotel guests — millennials and generation Z — who are calling loudest for industry action on ESG. More vocal and environmentally conscious than their predecessors, they value sustainability and local destinations, and seek out hotels that conform with their principles. To stay relevant, and give these young travelers what they want, hotels must realign their offerings.

Enhanced ESG practices can, in turn, create environments that meet guests' needs and create new investment opportunities.

> The new cohort of hotel guests – millennials and generation Z – are calling loudest for industry action on ESG. More vocal and environmentally conscious than their predecessors, they value sustainability and local destinations, and will seek out hotels that conform with their principles. To stay relevant, and give these young travelers what they want, hotels must realign their offerings.



Decarbonising leisure flights with sustainable aviation fuels

Human-caused climate change is responsible for weather and climate extremes in every region in the world. Sustainable aviation fuels hold the key to travelers leisure flights, says Rachel Solomon Williams, associate director of Energy and Mobility Strategy at KPMG in the UK.

When the United Nation's Intergovernmental Panel on Climate Change published its Sixth Assessment Report in March 2023, it found that human-caused climate change impacts weather and climate extremes globally. However, mitigation is possible, to some extent, with deep, rapid and sustained global greenhouse gas (GHG) emissions reduction.

Aviation is a big contributor. The industry has committed to net-zero by 2050, but it will face challenges in reducing its emissions. For long-haul journeys, especially, it will likely depend heavily on liquid hydrocarbon fuels.

But the solution that may best address the need to reduce emissions, while enabling flight to continue, is sustainable aviation fuel (SAF).

SAF's greener promise

SAF is available commercially today, unlike battery or hydrogen solutions for aircraft. And it does not require the redesign of aircraft or engines. It reduces the lifetime GHG emissions associated with fuel consumption by acting as a drop-in fuel that can be blended, in increasingly high proportions, with conventional kerosene-based Jet A-1 fuel.

The aviation industry recognizes the potential of SAF. In recent years, it has worked closely with governments, fuel producers and suppliers to increase SAF supply globally. Grants and funding for innovative technologies; tax incentives (mainly in the US) and proposed supply mandates (in Europe and the UK) are designed to drive supply and demand in parallel. Airports are starting to play a role too, incentivizing SAF-fueled flights with reduced landing charges.

Currently, however, SAF is both scarce and expensive:

- Scarcity is due to SAF's reliance on biogenic feedstocks, which are also in high demand for road and marine fuel applications. In the long term, fuels made from renewable electricity and captured carbon-dioxide are likely to be more prevalent but are not yet available at scale.
- Cost is driven by the high price of inputs and processes. This will continue until carbon pricing begins to impact significantly on the price of fossil-jet fuel. For now, there are limited options to reduce the absolute cost of SAF. And that raises big questions about economic support.

Passengers are most likely to pick up the additional cost of SAF in their airfares. Analysis by the UK Government suggests that a 10 percent SAF-blend could increase the cost of a medium-haul return ticket by between £4 and £14 in 2030. Clearly, as higher SAF-blend levels are mandated, there will be a greater impact on ticket pricing.

Who pays?

National SAF mandates are coming into effect. In Europe, regulators demand that fuel supplied to EU airports are two percent SAF by 2025; in the UK, it is 10 percent by 2030. The cost of compliance through supply will likely have to be borne elsewhere in the system because, post pandemic, airlines simply cannot absorb higher costs.

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But are passengers willing to pay? According to the latest UK Department for Transport Technology Tracker, 68 percent of passengers say they are prepared to pay an extra £5. This falls to 62 percent for an extra £10 and to 58 percent for an extra £20.[6] It seems, among UK passengers at least, that there is majority support for some degree of SAF-related surcharge on ticket prices.

Airlines will need to bring customers with them on their journey to sustainability and be transparent in their pricing and communications. Airlines are already engaging with passengers on cost and benefits, even though SAF usage is still optional:

- A European Airline applies a €1-8 SAF surcharge per person for economy tickets.[7]
- Some airlines offer an opt-in SAF purchase, either during or after online ticket booking.
- British Airways gives customers the option to pay for carbon removals and SAF combined. Choosing a 10-percent SAF-blend for a London-New York return flight, costs around £45.[8]

True green, not greenwashed

In implementing these changes, airlines must be mindful of the need to drive genuine environmental benefit and avoid any implication of "greenwashing". They must be able to demonstrate that passenger payments go towards either a genuine supply of SAF or investment in SAF production.

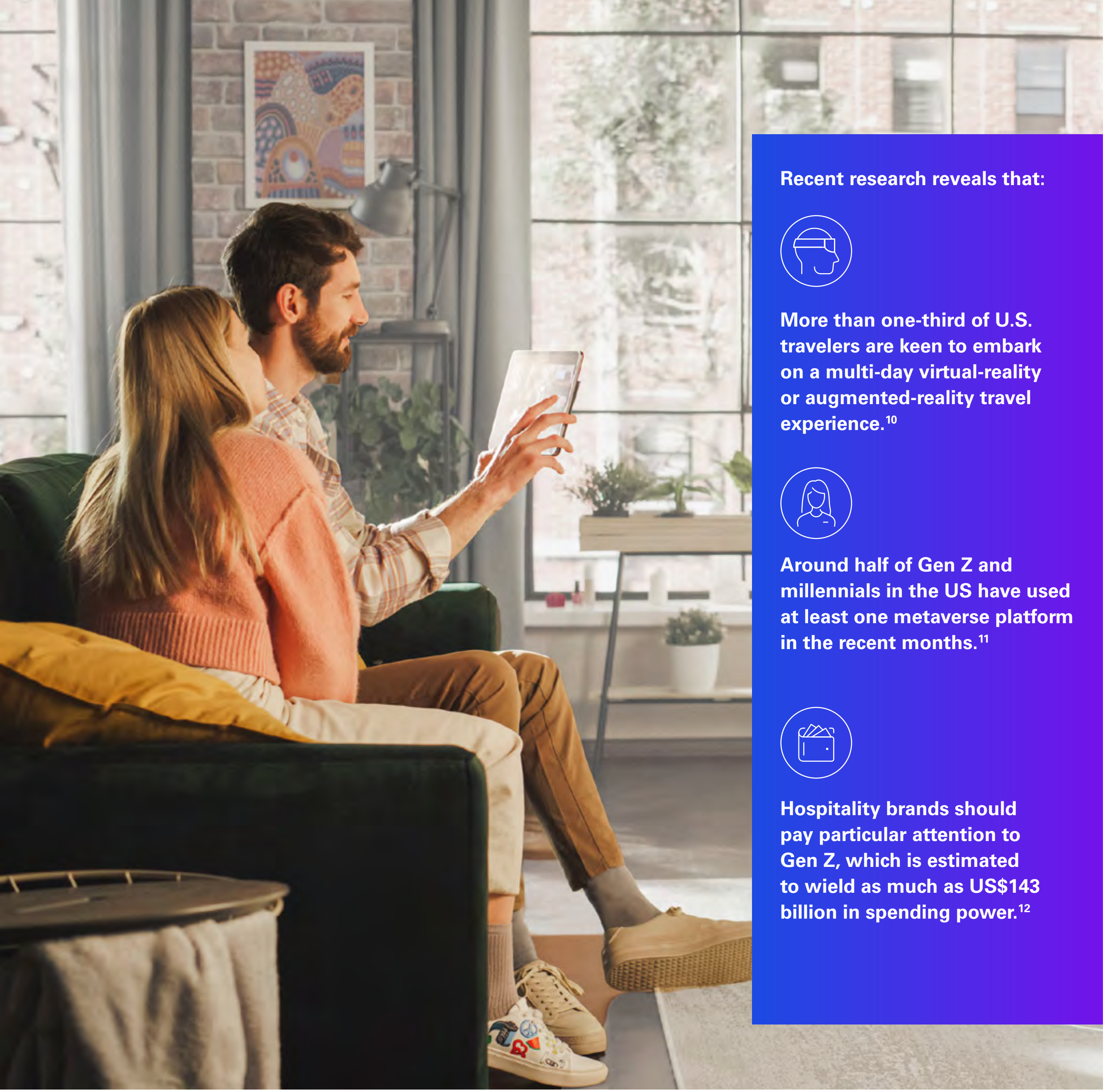
Sustainability and supply chain management are, KPMG believes, vital in maintaining the environmental integrity and reputation of new fuel types like SAF.[9]

Right now, we are at an exciting crossroads in the use of SAF in leisure flights. Airlines and passengers agree that they want to encourage its use. But, while the market is in its infancy, finding the right approach for different participants, which apportions costs equitably, remains a challenge.

5. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1005382/sustainable-aviation-fuels-mandate-consultation-on-reducing-the-greenhouse-gas-emissions-of-aviation-fuels-in-the-uk.pdf
6. https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1139418/transport-and-transport-technology-public-attitudes-tracker-wave-9-report.pdf
7. https://www.businesstraveller.com/business-travel/2023/01/16/air-france-increases-ticket-prices-to-pay-for-sustainable-aviation-fuel/
8. https://ba.chooose.today/#scrollTo=e57vdllxwg2ddsea2oxqgx
9. https://kpmg.com/uk/en/home/insights/2022/11/sustainable-aviation-fuel.html

How technology is revolutionizing leisure

Technology is reinventing leisure. Virtual reality, extended reality and the metaverse are feeding customer appetite for more innovative and engaging leisure experiences.



Recent research reveals that:

More than one-third of U.S. travelers are keen to embark on a multi-day virtual-reality or augmented-reality travel experience.[10]

Around half of Gen Z and millennials in the US have used at least one metaverse platform in the recent months.[11]

Hospitality brands should pay particular attention to Gen Z, which is estimated to wield as much as US$143 billion in spending power.[12]

Serving the digital guest: the rise of XR and the metaverse in hospitality

Today's hospitality customers want exciting, innovative, and engaging experiences, which emerging technologies can enable. KPMG innovation leaders explore how to differentiate your immersive offerings for digital guests.

The hospitality industry is all about delighting the customer. Delivering remarkable experiences and customized offerings that align with guests' preferences are impactful ways to distinguish your business from other providers. So, whether a customer is walking into a hotel lobby, a concert venue, or a sports arena, hospitality brands must take great care to deliver memorable moments.

However, the industry is at an inflection point. Customers still enjoy traditional experiences at hotels, casinos, theme parks, restaurants, and the like. But emerging technologies are feeding their appetites for more novel, interactive experiences.

Next-level technologies, like Extended Reality (XR) and the Metaverse, are helping brands differentiate themselves and deliver the experiences consumers seek.

10. Skift and Oracle Hospitality, "Hospitality in 2025: Automated, Intelligent…and more Personal," 2023.
11. KPMG survey of 10,000 US-based individuals ages 13+, March 2023.
12. Barkley, Inc. and Millennialmarketing.com, "The Power of Gen Z Influence, How the Pivotal Generation is Affecting Market Spend," 2018.

According to the KPMG 2022 CEO Outlook survey,[13] close to 75 percent of CEO respondents believe they need to quickly shift investments into digital opportunities and divest offerings that face digital obsolescence. Meanwhile, our Metaverse Investor Perspectives survey reveals that investors see benefit in early metaverse investments.[14] More than one-third fear they may have already missed windfall opportunities, while three-quarters say they plan to increase or maintain their metaverse investments over the next five years.[14]

Immersive technologies explained

Consumers access immersive experiences via their mobile phones, tablets, VR headsets, or yet-to-be-invented devices.

- Extended Reality (XR) encompasses both virtual and augmented reality.
- The Metaverse, which is considered an application of XR, comprises immersive, 3D, and virtual worlds, as well as avatars and digital assets.
- Web3 is an emerging blockchain-based infrastructure for the Internet, which enables decentralized digital ownership.

Consider the spectrum of immersive-technology applications

Experimentation is essential for building understanding and capabilities to enable immersive experiences. There are plenty of options to explore:

- The Metaverse allows brands to elevate customer experiences with storytelling platforms and interactive environments.
- Extended reality enhances live entertainment and leisure experiences and brings together communities of like-minded fans or tourists.
- Web3 can be the basis of new loyalty rewards, such as digital collectables (including non-fungible tokens) and preferential access to in-demand amenities, using token gating.

Future metaverse experiences are unlikely to replace in-person experiences. But they may dramatically extend and deepen brand relationships and loyalty. Virtual worlds create opportunities for dynamic customer interactions, as well as new data streams that can inform efforts around customer acquisition, loyalty, and retention.

The art of the possible

Imagine a tennis enthusiast attains the highest loyalty tier at a hotel chain. Before an upcoming professional tennis tournament, the customer receives an invitation to an exclusive party in the hotel brand's metaverse VIP lounge. The memorable XR experiences include:

Participating in exclusive metaverse events, including interacting with the world's top players, who mingle with guests and give out digital autographs.

Networking with fans worldwide while watching matches in real-time.

Virtually visiting one of the hotel's lavish properties to purchase exclusive digital collectables as souvenirs, leading to a planned future stay at the physical property.

Throughout customer journeys such as this, XR experiences can create deep immersion in events, while allowing the hotel brand to create high-value touchpoints leading to real revenue.

13. KPMG 2022 CEO Outlook.
14. KPMG Metaverse Investor Perspectives Survey.

Are you ready for the metaverse?

Uncertainty around headwinds may give brand leaders some pause about investing now.

Before you push ahead, examine where the Metaverse fits into your company strategy and growth goals and how those goals can be accelerated by emerging technology solutions. Determine whether you are more focused on increasing customer acquisition through new channels or more internally focused on efficiency and productivity gains. Rather than implementing technology for technology's sake, refine your objectives before choosing technology solutions that can bring them to life.

Consider the risks as well as the opportunities around investing in immersive technologies. For example, can your cybersecurity and privacy policies support digitalization of your offerings? Despite overall optimism, a recent InnoLead report, sponsored by KPMG, concluded that security, regulatory, and compliance issues rank near the top of the list of challenges that organizations expect to face when building or deploying Web3 technologies.[15]

Leisure companies that get a strategic head start into the Metaverse, XR, and other immersive technologies could realize a financial advantage. Staying one step ahead of hospitality consumers' needs and preferences can go a long way toward solidifying those customer relationships.

Prepare for tomorrow's tomorrow

The following three sets of questions can help you evaluate your readiness to embrace emerging XR and metaverse solutions and prepare for a distinctly different future:

Envision opportunities for your brand/ organization

- Given brand perceptions and customer expectations, how will you experiment with XR and the Metaverse?
- How do your physical presence and products/ services drive customers to your immersive environments and vice versa?

Evaluate your readiness to experiment with and pilot XR and metaverse initiatives

- What metrics will you use to measure success?
- What governance and risk controls are in place to protect consumers and your brand integrity?

Establish your vision and align resources

- What strategic commitments has your organization made that could be accelerated — or deprioritized — by XR or metaverse solutions?
- To what degree have you assessed your internal talent needs and identified business partners with relevant capabilities?

Now is the time for hospitality companies to begin thinking about their Metaverse strategies and roadmaps. Generative AI-based technologies are poised to further enhance immersive experiences, signaling that we are just at the beginning of a long-tailed — and exhilarating — period of disruption.

15. InnoLead, "Shaping your strategy for Web3 and the metaverse," sponsored by KPMG, https://www.kpmg.us/growth-strategy/shaping-strategy-web3-metaverse.html

How virtual reality is shaping the future of tourism and heritage

Immersive technologies can create competitive advantage for tourist providers and augment the visitor experience. Cailean Keaveney at KPMG in Ireland, discovers how virtual reality is helping the tourism industry shift from tradition to innovation.

The global virtual reality (VR) technology market is valued at around US$12 billion and is expected to grow to more than US$22 billion by 2025.[16] Unsurprisingly, a broad range of industries are embracing its transformational promise. Among them is the tourism industry.

Studies highlight the potential for virtual reality in tourism. It's said to increase and retain visitor attention, enhance the immersive quality of the experience and provide a platform for better marketing. But what can it really achieve? Around the world, several tourism businesses are already mixing real-life and virtual experiences.

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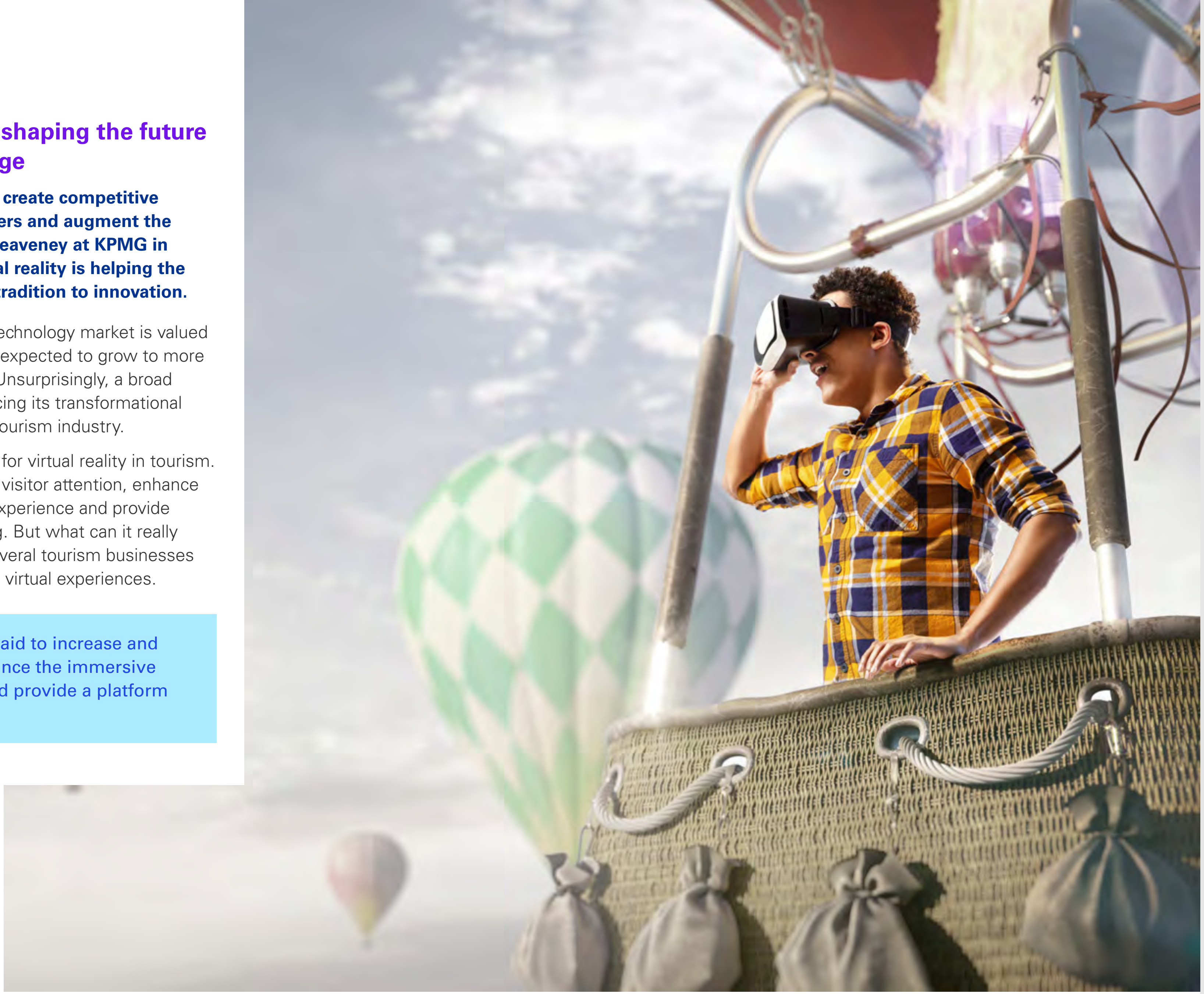

16. https://www.statista.com/topics/2532/virtual-reality-vr/

The reality of virtual reality

National tourism strategy

Explore some of Egypt's most diverse protected areas. A VR tourism campaign takes visitors on a virtual journey of discovery across the White Desert, through the Sannur Cave and onto Taba. Developed in response to a decline in tourism, attributed to the pandemic, the VR experience has earned praise for its contribution to the revival of the tourism industry in Egypt.

ECO Egypt is a nationwide VR tourism campaign. It is led by Egypt's Ministry of Environment, funded by the Global Environment Facility and implemented by the United Nations Development Programme, with the National Bank of Egypt as a strategic partner.[17]

Cultural heritage sites

Take a journey through the archaeological ruins of the ancient city of Pompeii without setting foot in it. VR is bringing the heritage site to users: a sustainable tourism experience without the environmental impact of travel.

In fact, the experience allows users to experience the Italian UNESCO World Heritage Site from the Grand Palais in Paris, France. Three people can explore the ruins simultaneously, and visit a fully reconstructed room, in its pre-volcano-eruption state, and access historical and scientific information.[18]

Art exhibitions

Set your eyes on five unseen works of art via a smartphone app and a VR headset. A new virtual reality exhibition, "The Stolen Art Gallery", displays masterpieces that have either been stolen or are missing.[19]

The creators mimic real-life galleries with audio descriptions of each painting. Users can make notes or sketches that can be seen by other visitors and get closer to the art in the VR setting than would be possible in the real world. The gallery includes Caravaggio's Nativity with St. Francis and St. Lawrence and Cézanne's View of Auvers-sur-Oise, which was stolen from the Ashmolean Museum in Oxford in the UK on New Year's Day in 1999.[20]

The Irish VR experience

Tourism is one of Ireland's most important economic sectors and biggest employers. VR is being used to bring the island's historic importance, heritage and cultural diversity to the virtual visitor.

The Legends of Kildare

The Legends of Kildare is a an immersive 3D-experience that takes visitors back in time to discover the history and mythology of Kildare. It was funded with investment from the national tourist authority, Fáilte Ireland, and Kildare County Council.[21] It is part of a wider national tourism strategy that leverages Ireland's rich history and heritage, embracing VR as an innovative technology solution.

The attraction is expected to draw an additional 30,000 visitors to Kildare Town Heritage Centre between 2019 and 2024 and is forecast to generate €1.3 million in revenue for the local area.[22] The experience appeals to a diverse audience of tourists and is available in four languages.

The Gates of Hell, Wicklow Gaol

The Gates of Hell visitor experience at Wicklow Historic Gaol, received significant investment from Fáilte Ireland[23] as part of a €2.3 million Storytelling Interpretation Grants Scheme.

The gaol, known as Ireland's most haunted building, uses a VR experience to transport users back in time to interact and learn about the rebellion of 1798, the famine era and the War of Independence from the perspective of the inmates.

Successful initiatives like these reveal the potential of VR in improving visitor experiences, promoting destinations and attractions, enhancing accessibility and lessening the climate impact. We believe collaboration between public and private stakeholders, and the wider tourism community, can elevate VR as a mainstream and transformative technology for the sector.

17. https://www.undp.org/egypt/stories/pioneering-virtual-reality-tourism-egypt%E2%80%99s-protected-areas
18. https://www.gedeonmediagroup.com/en/production/pompeii-the-vr-experience/
19. https://www.smithsonianmag.com/smart-news/virtual-reality-stolen-artwork-180980389/
20. https://www.prnewswire.com/news-releases/the-stolen-art-gallery-opens-its-doors-in-the-metaverse-301583463.htmlprnewswire.com
21. https://www.hospitalityireland.com/general-industry/new-vr-experience-unveiled-81054?preview=1
22. https://www.hospitalityireland.com/general-industry/new-vr-experience-unveiled-81054?preview=1
23. https://wicklownews.net/2019/07/gates-of-hell-virtual-reality-experience-launches-at-wicklow-historic-gaol/

The role of tech in tackling labor shortages in the leisure market

Travel numbers are predicted to go up. Everyone wants to get out and about now that pandemic restrictions are mostly lifted. But the labor dynamic needs to be fixed to enable business growth and an improved customer experience.

The travel, leisure and hospitality industries are transforming on the back of resurgent demand. Consumer, business and hybrid “bleisure” travel are picking up. Accelerated technology adoption, remote and hybrid working models and new user expectations complete the post-pandemic picture. It’s all looking good apart from the scarcity of labor to service demand.

Right now, strong headwinds remain on the labor front and employee shortages aren’t going away. The pandemic exacerbated existing trends in the labor market. The ageing population has weighed on labor-force participation since the early 2000s; the rise of long-COVID and early retirements, prompted by the pandemic, have further eroded supply. And even with increases in unemployment during a recession, which can create more demand for jobs, it is likely that labor shortages, especially in leisure and hospitality, will likely define the next decade.

All change at the workface

For leisure industry employers, the changing industry landscape, and rising employee expectations, bring new challenges. In response, they should be innovative in determining how and where work gets done, along with who makes up the workforce.

There are ways to tackle these challenges and improve margins:

Treat employees as customers of the organization

In the hospitality sector, employee experience is emerging as a corporate function. Listen to your employees and understand their changing aspirations. And respond in a timely way to remain competitive in the market. If you don’t, you employees will move elsewhere.

Leverage technology to tackle labor shortages and reduce staff turnover

Although the hospitality industry is a people business, technology can replace manual tasks and enable a better employee and client experience.

Raise a new generation of travel and hospitality workers with a passion for serving others

The modern workforce is diverse. Reimagine your talent strategies and build a culture that resonates with the personal beliefs of your people, to strengthen and elevate your brand among employees.

Let technology take the strain

Increasingly, in the travel and hospitality industry, companies adopt technology-based solutions to attract and retain talent, improve efficiency and enhance customer service. They deploy:

Labor-management technologies:

- Sophisticated forecasting algorithms predict demand and automate time management, staffing and scheduling to maintain operational efficiency.
- Streamlined human resources and operations remove barriers between talent sourcing, onboarding, scheduling and training to improve employee satisfaction.

AI to turn data signals into value:

- Artificial intelligence-powered software can accurately analyze and deliver on predictions and business outcomes.

Automation:

- Robotics with artificial intelligence, such as chatbots, can reduce the need for manual labor and elevate the customer experience.
- The use of hiring apps is booming. They ease the process for storing applicant information, onboarding and training employees, and allow collaboration on job postings. They improve the overall experience for the workforce.

The irreplaceable human touch

Although digitalization can reduce workloads and improve customer experiences, the human touch can never be fully replaced. Nor should it be.

Technologies alone cannot organize trips, connect with visitors or earn customer brand loyalty. Industry leaders must build a new generation of travel, leisure and hospitality workers. And for that, a balance should be struck between technological advances and the human connection.

Businesses can turn the current disruption in the labor market into an opportunity. Though there are several ways to go about this, they can:

- Reimagine the value proposition: The new generation of talent expects a purpose-driven culture that has a positive impact on society, the environment and overall employee well-being. Around 76 percent of job seekers consider workforce diversity when evaluating job offers.[24] Employers must act with both agility and empathy when reframing their value proposition.
- Focus on the non-traditional workforce: Given the tight labor market, companies must find creative ways to expand the workforce by hiring cross-industry talent—perhaps from retail or healthcare — and focus on transferable skills. Some organizations are initiating special training programmes to integrate under-served groups into the workforce and will help them develop their skills.
- Adopt an inclusive recruitment strategy: To combat a rising preference for location-agnostic jobs, capitalize on geographic agility and flexible working hours that combine leisure travel with work. Long-term partnerships with other businesses in the sector can support the identification of qualified talent and build talent pipelines.

> Although digitalization can reduce workloads and improve customer experiences, the human touch can never be fully replaced. Nor should it be.

24. https://www.glassdoor.com/employers/blog/diversity-inclusion-workplace-survey/

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What happens when the worlds of gambling, sports and media converge?

A US$135 billion ecosystem is emerging from the convergence of gambling, sports and media. But players must move quickly and purposefully to capitalize on the opportunity, says Rick Arpin at KPMG in the US.

Sports betting in the US spiraled out of a perfect storm. First the Supreme Court overturned the Professional and Amateur Sports Protection Act in 2018; then, COVID-19 lockdowns in 2020 and 2021, created an environment that lent itself perfectly to watching sport at home and betting on outcomes. Today, betting is a key driver for increased fan engagement, growth in media viewing figures and improved valuations across sport and media entities.

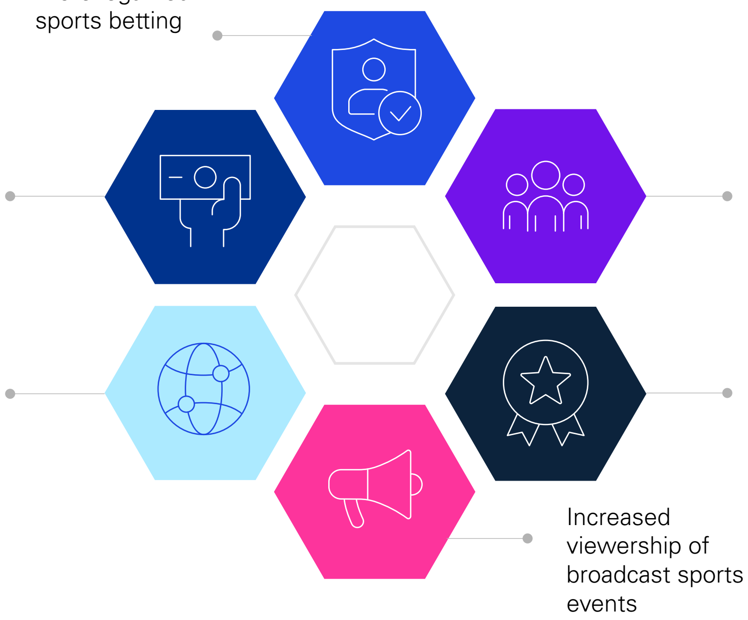
Synergies happen when players interconnect

Synergies and flywheel effects are at play when the sports, media and gambling industries interconnect. Each sector within this ecosystem benefits from increased activity in another.

This convergence has the potential to create a US$250 billion ecosystem across advertising, media rights and gambling.[25] To to help fully realize these potential benefits, and create a well-executed sports-betting environment, players should move quickly and strategically.

Betting is a key driver for increased fan engagement, growth in media viewing figures and improved valuations across sport and media entities.

How sports betting links the gambling, media and sports industries



25. Our KPMG report "Capitalizing on the convergence of sports, media and gaming," issued in August 2021, has been updated to include our estimates for 2022, based on trends in sports betting and sports franchise revenue, and includes digital advertising.

Deal volumes increase

The need for speed is evidenced by increased deal activity as parties in one sector seek to "play" in another.

We tracked 105 convergence deals (mergers, large equity investments and joint ventures) in the US between 2019 and 2022, with deal participants seeking to expand their market geographically, add products to their portfolios and enhance brand value.[26] They include:

- Casino operator and entertainment company Penn Entertainment, which purchased a 36 percent stake in media brand Barstool Sports in 2020. It sought to leverage Barstool's differentiated customer base and build a content-based brand within the sports betting space. It completed a full acquisition of Barstool in February 2023. Penn also bought The Score, a leading digital media and sports betting and technology company, in 2021.
- PointsBet, the Australian sports betting company, which struck a deal with US media and entertainment conglomerate NBC Universal in 2020 to become its sports betting provider. In return, NBC received an initial 5 percent stake in PointsBet.
- Gaming company Bally's Corporation and media broadcaster Sinclair announced a deal in 2021 in which Sinclair invested in Bally's while re-branding its own regional sports network as Bally's Sports.

Elsewhere, intense activity is underway to seal marketing partnerships and build sports betting platforms within media companies. However, the pathway to success can be difficult or cost prohibitive. For example, TV streaming platform FuboTV started and subsequently shut down its online sports betting division. Meanwhile, Fanatics Betting & Gaming launched its first retail Sportsbook in Maryland in January 2023 and intends to launch and operate its Sportsbook and iGaming platform in additional U.S. states in 2023 where permitted by relevant legislation and upon the receipt of required license.

With change comes risk

Convergence brings risks to every party involved in the new ecosystem. Companies are moving into non-core business activities, which come with an entirely new set of customers, products, employees and systems. And that is a recipe for new risk. They include the increased risks of cyber-attacks, data theft, hacking and money laundering. These risks must be actively managed.

There is potential risk to the relationship between the company and its customers, which should be built on trust. And so, transaction processing mechanisms must be as robust in the betting industry as they are in other sectors, and customer funds must be managed properly and transparently.

It is critical too that companies maintain gaming integrity and comply with relevant data-privacy regulation. Regulatory compliance in this industry is complex and will require input from connected parties. Convergence means that sports and media companies are "guilty by association" if things go wrong on the customer side.

Moreover, regulators and the public will expect companies — whether they operate in the core gaming sector or have entered via the media or sports industries — to demonstrate a strong commitment to responsible gaming. They must strike a balance between self-promotion and education about responsible gaming behaviors.

For certain, US companies will be keen to avoid the backlash that their counterparts faced with the legalization of sports betting in Europe. A huge uptick in betting advertisements angered the public, leading to restrictions on sports sponsorships, including the removal of betting firms' logos from football shirts.[27]

Playbook for successful convergence

Start by defining your "why". Develop a strategy to support you decision to play in another sector and to fulfil your objectives for convergence. Tactical steps might include hiring leaders with experience in adjacent sectors to build expertise and know-how across the ecosystem.

Consider the broader customer base. Companies within each sector should fully understand their own customers and how their preferences might be leveraged across the wider ecosystem. Identify gaps in offerings to both existing customers and new customer segments, which can be addressed by convergence.

Ensure systems and processes are robust and that people can ensure compliance and security for the customer and for the operator. The convergence of systems can be tricky, especially in M&A where partner organizations might have superior technology.

This is a nascent segment, and so the focus should be on innovation. Product development and product offerings will go through rapid iterations and must be well connected to other parts of the organization, such as the marketing, data and analytics and compliance functions.

Those that take an informed approach to convergence but move quickly and purposefully to capitalize on the opportunities that exist in this potential US$135 billion ecosystem, will likely have the strongest start.

26. KPMG research.
27. Source: The Guardian, "UK betting faces bigger threats than losing its sport shirts," February 1, 2021, and House of Lords, Select Committee on the Social and Economic Impact of the Gambling Industry, "Gambling Harm -Time for Action, Report of Session 2019-21," July 2, 2020.

Mergers and acquisitions

The pandemic hit hard, but a resilient industry has emerged. Though investors are encouraged by performance, deal appetite is not yet back to where it used to be. Alternative assets and new customer values are shaping investment decisions.

M&A deal activity in the global travel, leisure and hospitality sector

Post COVID-19, investors are taking positive readings from better-than-expected performance recovery across the global travel, leisure and hospitality sector. KPMG partners in Germany, the UK, the US and Japan firms look at the sector through an M&A lens.

In 2022, across Europe, room rates were up 18.5 percent on 2019 levels, though occupancy was down 10.5 percent.[28] In the UK, hotel trading performance surpassed 2019 benchmarks, with demand coming from both the business and leisure segments, staycations and international travel. A post-pandemic rebound in travel, leisure and hospitality in the US got an extra boost from robust consumer spending. Meanwhile, Japanese room rates rose, and the luxury segment fared well as travel restrictions eased. The industry, it seemed, had turned a corner.

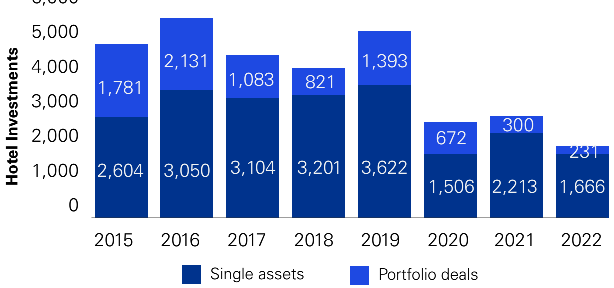
However, new headwinds could blow recovery off course. Rising energy costs, interest-rate hikes, inflation, wage demands, staff shortages and the cost-of-living crisis all feed into a challenging economic environment. And that translates into a switch in consumer behaviors, reduced discretionary spend, continued pressure on the industry and unsettled investors.

So, as post-COVID-19 recovery butts up against these new economic headwinds, how are investors responding to deal-making?

The German market

Germany reports a persistent gap between buyer and seller price expectations, which is limiting the number of deals transacted. In fact, in 2022, the German hotel investment market reached an historic minimum, with volumes 45 percent below the 10-year average (see figure 3). However, an increase in capitalization rates (up to 50 basepoints throughout 2022, with further increases in the first quarter of 2023) returned an average 5 percent gross yield for hotel real estate.

Figure 3: Hotel real estate investment in Germany



Source: BNP Paribas Real Estate Hotel-Investmentmarkt Deutschland Q4 2022

Operator consolidation has accelerated in the past two years (see figure 2). In Germany, Austria and Switzerland (DACH region), portfolios of hotels, anything from fewer than 10 to more than 100, are on the market or under discussion. Meanwhile, strategic alliances are being formed. Lindner Hotels AG and Hyatt Hotels Corporation, for instance, are jointly seeking to extend their market presence across Europe.

Figure 2

Deal	Buyer	Year	No. of Hotels
Michel Hotels	Achat Hotels	2023	13
Bierwirth & Kluth	Borealis	2022	12
Amedia Hotels	HR Group	2022	23
Success Hotels	HR Group	2022	22
Vienna House	HR Group	2021/22	40
Odyssey Hotels	Activum SG	2021	12

28. https://www.hospitalitynet.org/news/4116110.html

Institutional investors widened their nets to take in B- and C-class cities, as well as resort hotels. They are attracted by new concepts and the ongoing professionalization of the operator landscape. Union Investment, for instance, entered the leisure segment in October 2022, with its first acquisition of a resort hotel, close to the Bavarian alps, under the Marriott brand.

The long-stay serviced-apartment segment, which demonstrated resilience during the pandemic, is gaining investors' attention too. Often highly digitalized, which translates into greater efficiencies in the operating business, while overcoming challenges presented by staff shortages, serviced apartments also attract comparatively high rents.

Smaller deals in unbranded hotels are gaining popularity. Brand and chain penetration is still low in most European markets — more than 80 percent of hotels and 50 percent of rooms are unbranded in Germany — which indicates the scale of the acquisition opportunity. Among the interested investors is a newly established €500 million asset management fund, which targets vacant possessions with potential to reposition assets.

However, as they switch into alternative hospitality products, investors find themselves in a dynamic market environment with a different set of investment risks. They need a profound understanding of the operating concept as the guarantor for secure rent payments. They should be equipped to make judgement on the professionalism and credit standing of operators as tenants, particularly in a lease-dominated market like Germany. These risks should be assessed in the context of potential future market downturns.

The UK market

In the UK, there is no shortage of capital available for investment in the hotel sector and real estate in 2023. For investors, hotels can be an effective hedge against inflation as, in theory, operators can adjust their prices quickly in response to short-term rises. But new and existing investors, though attracted by strong fundamentals, are waiting for an opportune time to deploy capital.

Notable deals in 2022 include Tristan Capital Partners' acquisition of Point A Hotels from Raag Hotels for approximately £420 million.[29] Fortress Investment Group acquired PREM Group and KSL Capital Partners acquired The Pig Hotels Group from Home Grown Hotels, both for undisclosed sums. These platforms offer significant scope for expansion and sit in the highest performing and most resilient segments of the UK hotel industry.

However, the second half of 2022 saw transaction activity slow, a consequence of the UK's mini budget and the rising costs of debt and inflation. More stress could be on its way over the next 12 to 18 months, especially for companies needing to refinance. Increasingly, equity investors are offering credit solutions to fill gaps left by high street banks, but these arrangements are generally more expensive than what the trade is used to.

So far this year, most transactions have been for single assets. The Israeli-based Fattal Group, the owner of Leonardo Hotels UK and Ireland, acquired the Grand Hotel in Brighton and, at the end of 2022, The Dilly in London. Dalata Hotel Group, meanwhile, bought a new 192-bedroom hotel in Finsbury Park, London.

29. https://www.tristancap.com/news-and-media/press-releases/tristan-fund-partners-queensway-acquire-point-hotels-business-%C2%A3420m

Some hotel groups are looking to expand their UK presence. They include B&B Hotel, which has plans to open 100 hotels in the UK by 2030, meanwhile, Virgin Hotels recently opened its first European properties in Edinburgh and Glasgow.

Management contracts remain the preferred operating model in the UK (outside of limited-service hotels), but some operators are interested in leases to support expansion.

Driving customer loyalty

The impact of ESG

How technology is revolutionizing leisure

Mergers and acquisitions opportunities

12. A snapshot of M&A activity in the global hotel market

The US market

Acquisitions were popular in the first half of 2022 in the US. Hoteliers tapped into relatively cheap financing to buy properties ahead of a summer surge in room and service demand. Extended stay and alternative accommodation proved popular with travelers and constitute a growing market.

However, in response to rising inflation, the US Federal Open Markets Committee raised interest rates aggressively. Companies were forced to reconsider deal making as they adjusted to a new normal of higher capital costs. They assessed how inflation and potential labor stress in the sector would impact consumer satisfaction. And though buyers made acquisitions to improve operations and park cash in anticipation of a challenging first half to 2023, few were willing to pursue megadeals. Others simply avoided deal-making in the sector altogether.

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As a result, the total value of deals in the travel, leisure and hospitality sector sank 72 percent in 2022 to US$62.5 billion. This was from a banner 2021, when US$224.8 billion worth of deals got done.

Diversification is evident among buyers who remained active in 2022 in the US. Responding to consumer appetite for high-quality travel and lodging, companies like Choice Hotels, which purchased Radisson Hotels America for US$675 million, moved into upscale properties to better serve customers and capture higher-margin revenue. Others, such as Dave & Buster's Entertainment, which bought Main Event Entertainment for US$835 million, expanded geographically to build scale and accelerate growth.

The Japanese market

Investment focus switched to resorts and luxury hotels, rather than developments in big Japanese cities. This policy became evident during the pandemic. A return of wealthy travelers, after prolonged COVID-19 lockdowns, is expected to see increased demand for natural and wellness experiences within the resort and luxury hotel segments. Among some investors, there is an expectation that the target-customer profile will change and that hotel facilities will need to be modified to accommodate their demands.

ESG exerts influence on investment decisions

Increasingly, investors must factor environmental, social and governance priorities into their investment agendas.

Consumers purchase more thoughtfully and sustainably than ever before, which impacts their accommodation choices. Operating 24/7, hotels are the most energy-intensive assets in the property sector, so hotel operators with an ESG focus can expect to be rewarded.

Investors, meanwhile, are conscious that the sustainability of their investments is tied to compliance with ESG regulations. Wary that assets could become stranded, they increasingly demand ESG due diligence before signing off on investments.

The hotel industry's commitment to ESG is set to accelerate in line with government initiatives and shifting consumer attitudes. Expect investors to eye up hotel properties that offer opportunities for future proofing and enhanced sustainability, and which will appeal to next generation ESG-conscious guests.

What comes next and how to survive it

The leisure industry has been through a challenging time during and post pandemic. There are several strategies that businesses can deploy to ensure that their values reflect what their customers are looking for as the world moves on.

Align to your customers' values

The pandemic forced people to take a breather from hectic urban life. Now, they are ready to travel and have a renewed sense of purpose and adventure. But they are more discerning about how they travel and what they want from the experience. The industry must develop more personalized responses that accommodate customers' values.

Cut through the complexity to turn fresh consumer insights into opportunities

Prioritize ESG to thrive in the evolving industry

Hotels and travel companies, as well as restaurants and venues, must consider their impact on the environment, how they achieve their carbon targets and comply with ESG regulation. Within that, they must also address access to labor, ways to increase diversity and their contribution to the society in which they sit.

A once in a generation chance to accelerate change and make things right. Are you with us?

Adapt and transform your operational strategies

Businesses must evolve their target operating models, keep control of costs and extract maximum value from investments if they are to continue to compete in the new environment.

Reshape your costs to find growth

Utilize technology and data to enhance customer experience

Technology enables innovation around customer experience. Loyalty programmes, properly executed, deliver incremental value from increased customer retention. Hotel, tourism and leisure operators must get better at leveraging data pools to deliver more varied and personalized benefits to customers, while keeping data secure.

Deliver value through digital transformation and acquisition.

Take a proactive approach to M&A – it can transform the leisure landscape

Leisure businesses must consider their growth strategies — both global and local — and ensure that governance and risk processes are robust enough to withstand any future upheaval.

Create a bold strategy and navigate the complexities of deals

Talk to our experts

If you would like to discuss any aspect of this paper, please don't hesitate to contact us:

For our team in Ireland, contact:

Michelle Connolly
Partner - Head of Corporate Finance and EMA Head of KPMG Global Infrastructure
KPMG in Ireland
For guidance on corporate finance and infrastructure

E: michele.connolly@kpmg.ie

James Chilton
Associate Director at KPMG Future Analytics
KPMG in Ireland
For guidance on tourism strategy, feasibility and ESG

E: james.chilton@kpmg.ie

Shane O'Reilly
Director - KPMG Sustainable Futures
KPMG in Ireland
For guidance on sustainability

E: shane.oreilly@kpmg.ie

Stephen Purcell
Director - Co-Head Future Analytics
KPMG in Ireland
For guidance on development planning

E: stephen.purcell@kpmg.ie

David O'Kelly
Partner - Head of M&A
KPMG in Ireland
For guidance on M&A

E: david.okelly@kpmg.ie

For leisure and hospitality industry expertise, contact:

Will Hawkley
Global Head of Leisure and Hospitality
KPMG

E: will.hawkley@kpmg.co.uk

For guidance on customer experience and loyalty:

Stephen Harwood
Customer Experience Manager
KPMG in the UK

E: stephen.harwood@kpmg.co.uk

Anson Bailey
Head of Consumer & Retail, ASPAC
KPMG China

E: anson.bailey@kpmg.com

Heidi Chan
Head of Hospitality
KPMG China

E: heidi.chan@kpmg.com

Lisa Bora
Partner in Charge, Retail & Leisure
KPMG Australia

E: lbora@kpmg.com.au

Naren Sanghrajka
Director, Management Consulting
KPMG Australia

E: nsanghrajka@kpmg.com.au

For guidance on ESG, contact:

Rachel Solomon Williams
Associate Director of Energy and Mobility Strategy
KPMG in the UK

E: rachel.solomonwilliams@kpmg.co.uk

Giorgio Parolini
Energy & Mobility Strategy
KPMG in the UK

E: giorgio.parolini@kpmg.co.uk

For guidance on gambling, sports and media, contact:

Rick Arpin
National Gaming Leader, Office Managing Partner
KPMG in the US

E: rarpin@KPMG.com

For guidance on Metaverse, AI, VR and technology, contact:

Stephanie Kim
Senior Director, Enterprise Innovation
KPMG LLP

E: jiseonkim@kpmg.com

David Pessah
Discovery Leader, KPMG Ignition
KPMG LLP

E: dpessah@kpmg.com

Zak Williams
Director, KPMG Ignition Market Leader
KPMG LLP

E: zjwilliams@kpmg.com

Chris Brodkey
Senior Associate, KPMG Ignition
KPMG LLP

E: cbrodkey@kpmg.com

For guidance on M&A, contact:

Fabrice Adler
Manager, Deal Advisory, Real Estate & Hospitality
KPMG in Germany

E: fabriceadler@kpmg.com

Gemma Gardner
Director, Real Estate, M&A
KPMG in the UK

E: Gemma.Gardner@kpmg.co.uk

John Taylor
UK Head of Hotels
KPMG in the UK

E: John.Taylor@kpmg.co.uk

Chintan Patel
Partner Deal Advisory
KPMG India

E: chintanpatel@kpmg.com

Alan Yau
Head of Real Estate
KPMG in Hong Kong (SAR)

E: alan.yau@kpmg.com

Braden Mark
Deal Advisory Partner
KPMG in the US

E: bmark@kpmg.com

kpmg.ie

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