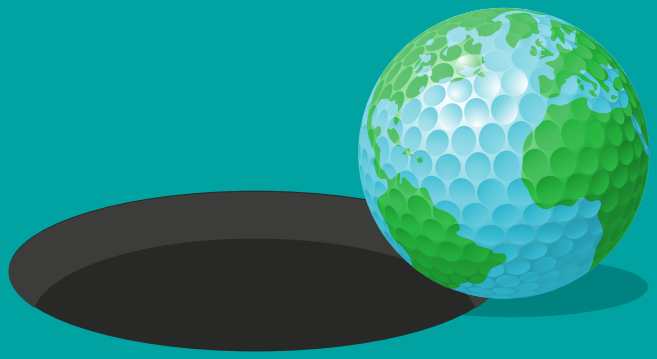
Leisure Perspectives

Leisure industry trends from around the globe



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Introduction

It's old news that the leisure industry is changing. Disruption is here to stay across the business landscape globally, and the leisure industry isn't excluded. As consumers, we're all becoming more mobile, and it's easier to see the world. With this, we see the demand for travel, hotels, restaurants, bars and entertainment increase.

Consumers are starting to value experiences over ownership. There are generational differences of course, but overall the leisure industry has benefited from this trend globally. As an example, the UK leisure industry is on track to reach £141 billion in the UK by 2022, and the World Travel and Tourism Council (WTTC) predict that worldwide expenditure on travel and tourism is set to grow[1]. In Asia, China's Five-Year-Plan lays out tourism as one of the main streams of growth for the country's hotel industry, and the outlook in the US is also positive with restaurant sales predicted to increase[2].

As well as travel and tourism, consumers are also spending their free time immersed in gaming and sport. It is estimated that the online gaming and betting sectors have grown by 67% from 2012-2017, and by 11% over the last year in the UK[3]. And with the US debating whether or not a federal ban on sports betting should be removed, this may also open up greater opportunities in the US market.

1,3 Fricker, H (2017) *Leisure Review – UK*. Mintel [online] Available at: http://www.mintel.com

2 Kelter, D (2018) *Dining out in 2018 – US*. Mintel [online] Available at: http://www.mintel.com

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Although growth in the leisure sector is visible, it doesn't mean to say that the industry can remain complacent. Consumers' demands are also rising, meaning that the leisure industry has to find new ways to stay competitive. Brand engagement is becoming more meaningful, and leisure companies need to outpace their competitors to remain relevant to customers, and also retain them.

As our world becomes more connected, leisure businesses should consider the following trends throughout the course of 2018:

— The industry is consolidating, not only locally but globally, and we're seeing more merger and acquisition activity as a strategy for growth.

— The consumer is changing: they're starting to value immersive experiences and are more health conscious.

— Consumer confidence is stabilising globally[4], and this generally leads to increased leisure spend.

— As in all industries, technology is driving innovation and the use of this technology is crucial to improving the customer experience through segmentation and personalisation.

— Cyber risks continue to pose threat to the industry as a whole and companies should take the appropriate measures to protect their business and customers especially with new data protection regulations coming into effect in the EU.

The leisure industry today with all the change and disruption is a challenging but exciting place to be. As we become more connected globally, even in a post Brexit world, and offerings become more sophisticated, there's great opportunity for the leisure sector to continue to delight travellers, diners and gamers alike. *Leisure Perspectives* provides KPMG's point of view on developments that we are seeing around our extensive global leisure network. We would welcome the opportunity to discuss any of these developments with you and your teams.

Will Hawkley
Global Head of Leisure and Hospitality
KPMG

4 Nielsen (2017) *Q2 2017 Consumer Confidence Report* [online] Available at: http://www.nielsen.com/uk/en/insights/reports/2017/q2-2017-consumer-confidence-report.html

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The 'Brexit effect' on the global leisure industry

"You don't have to look nearly two years ahead to see Brexit pressures on the hospitality sector."

Forecasting the future is hard enough when we have to consider the weather, terrorism, and consumer spending trends. The potential impact of Brexit just makes it even harder. We are now more than half-way between the UK's vote to leave the European Union and the March 2019 exit date, and it is still far from certain how Brexit will turn out, especially for the leisure sector. From a UK perspective, there are vast numbers of EU nationals working in the hospitality industry, supplier and commercial contracts with European entities to review, and the attractiveness of the UK as a tourist destination is also under the spotlight. All of these factors could affect operations and revenues of leisure proprietors.

UK consumers feel the pinch

The impact of Brexit on consumer spending won't be uniform across the globe. European tour operators have seen a softening in demand from British holidaymakers avoiding 'imported inflation'. They still value their summer holiday and won't give it up lightly but they may approach it differently, for example, by selecting cheaper and new destinations or opting for shorter holidays. The weak pound has made trips abroad more expensive and as a result some are even turning to 'staycations' instead, especially for their secondary holiday.

A slow-down in real wage growth has also hit the pockets of many British consumers. With less disposable income, cautious UK customers are tightening their purse strings across the board, abstaining from both overseas travel and leisure activities closer to home. When it comes to eating out, for example, pub and restaurant revenues are at risk. For several months now, growth figures have remained largely stagnant, with some companies even tipping into the red[5], and facing multiple site closures.

Forward-thinking executives of pubs and restaurants are taking heed from retailers who are varying their product mix to suit different budgets. Menu engineering, for instance, is a viable strategy. Reformulating product size or incorporating less expensive ingredients can alleviate the squeeze on margins and lead to lower-priced dining options for cash-strapped customers.

5,6 KPMG (2017). Overseas cash masks downturn in home grown leisure spending, says KPMG. KPMG [online]. Available at: https://home.kpmg.com/uk/en/home/media/press-releases/2017/07/overseas-cash-masks-downturn-in-home-grown-leisure-spending–say.html

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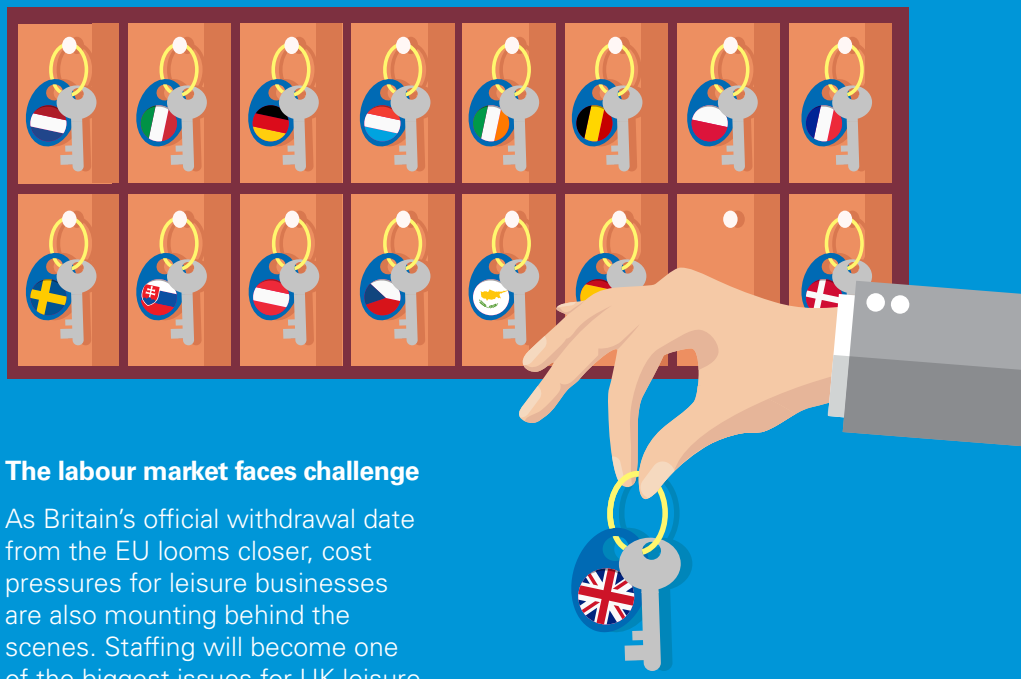
International tourism defies the odds

However, Brexit hasn't been all doom and gloom. Far from it. Inbound tourism is on the rise. London's hotels were booming up until the end of 2017. The pound's slide led to the number of overseas visits almost reaching an all-time high[6]. And that brings secondary benefits for luxury retailers who gain from sales in everything from homeware to handbags, not to mention hospitality.

Yet despite this lift in earnings, some domestic players are beginning to cast doubts. They are unsure as to whether this Brexit-driven boost to UK business can be sustained. One high-end department store in central London is thinking about Ramadan 2019 and the impact any Brexit cliff-edge chaos might have on tourists from the Middle East. US visitors tend to plan European trips around six months in advance, bringing the important Christmas shopping period in 2019 into Brexit range. Asian visitors to Europe book even further ahead, so it is clear that any Brexit ripples impacting the tourism industry will continue to be felt for some two years to come, at least.



The labour market faces challenge

As Britain's official withdrawal date from the EU looms closer, cost pressures for leisure businesses are also mounting behind the scenes. Staffing will become one of the biggest issues for UK leisure companies, partly because each pound is worth less at home for EU citizens, partly because some people say they feel less welcome, but mostly because people don't have certainty over their future.

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The hospitality sector is reliant on EU nationals, who comprise a significant proportion of the workforce[7]. Business leaders are probably right when they say "I expect things won't change that quickly", but does that give enough comfort if workers are trying to decide whether to put down roots, buy a home or start children in school? While it's clear some people are leaving, the far greater impact is those who have decided not to come. It is important for UK leisure businesses to review their communication with their EU citizens as continued engagement will be vital.

A depletion of the talent pool is forcing leisure companies to compete with other sectors for candidates, which places upward pressure on wages. Furthermore, revisions to the national living wage and new pensions requirements are set to push labour costs even higher.

Businesses are innovating to stay afloat

Finding creative ways to increase productivity can offset these challenges. For example, in casual dining, the implementation of table-top ordering would enable consumers to order food and drinks via an app from a mobile device. This streamlines the workload of waiting staff and reduces the number required. For hotels, alternative operational and pricing strategies such as swapping twice-daily room cleans for a free drink at the bar could also increase operational efficiency.

However, leisure companies will still need to invest in measures to retain top talent. Entry-level turnover in hospitality costs billions each year[8]. Access to training and development opportunities and generous staff benefits can counteract attrition. For example, one coffee chain has pledged to help their employees combat the rising costs of accommodation, offering them interest free loans[9]. In return, if employees feel more valued, they may demonstrate more loyalty to their place of work and choose not to leave the UK but to stay put instead – a win-win for them and their employer.

An optimistic outlook

Up against a number of obstacles, a diverse range of national leisure companies appear to be caught in the Brexit headlights, defaulting to business as usual as they struggle to predict the long-term impact of Brexit on customers, employees and the bottom-line. But even consciously deferring a decision is a more active strategy than crossing one's fingers and hoping for the best.

Some businesses are looking to adjacent sectors such as retail from which they can borrow a few tips, such as reassessing their value chain. Others are thinking of innovative ways to balance supply and demand more effectively, as they recognise the importance of keeping both customers happy (and therefore, spending), and making sure employees from the continent, who are worried about their status and security in the UK, feel welcome and reassured.

But ultimately for the leisure sector to combat this seismic shake-up, and safeguard future revenue and profit, agility will become the name of the game. Whether it's pubs and restaurants, hotel groups, tour operators, or other hospitality vendors, being willing and prepared to adapt will be a key differentiator that determines success in the face of the unknown.

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7 KPMG (2017) *Labour migration in the hospitality sector.* KPMG [online]. Available at: http://www.bha.org.uk/wordpress/wp-content/uploads/2017/05/BHA-EU-migration-final-report-170518-public-vSTC.pdf

8 Gilsdorf, K, Hanleybrown, F, Laryea, D (2017) *How to improve the engagement and retention of young hourly workers.* Harvard Business Review [online]. Available at: https://hbr.org/2017/12/how-to-improve-the-engagement-and-retention-of-young-hourly-workers

9 Armstrong, A (2015) *Starbucks to help staff by paying rent deposits.* The Telegraph [online]. Available at: http://www.telegraph.co.uk/finance/newsbysector/retailandconsumer/11890210/Starbucks-to-help-staff-by-paying-rent-deposits.html

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Brexit Navigator

The KPMG Brexit Navigator is designed to help businesses to plot out the key decision milestones to consider across the next year.

Understand how each of the Brexit variables could impact your business – from regulatory changes to securing the right talent and rethinking your supply chain and, importantly, what the critical time lines are.

JUNE 2018 — 9 MONTHS TO GO

DECISION DEADLINE	LAST CHANCE TO
Assessed inventory impacts? Is the finance in place?	Update global mobility for new social security rules and make strategic hires
Is your corporate structure right? Do you need more financing?	Review your supply chain plans
	Adapt to requirements of new market regulations
	Restructure data systems
	Implement new brand/customer propositions
	Update your contracts

DEC 2018 — 3 MONTHS TO GO

LAST CHANCE TO
Restructure holding company, establish subsidiaries and put financing in place

MAR 2018 — 12 MONTHS TO GO

DECISION DEADLINE	LAST CHANCE TO
Will your customs & VAT systems work?	Influence policy makers
Can you take advantage of the Merger Directive?	Commission new warehouses
Do you need to hire for key roles?	Begin transferring manufacturing
Do you need to change your contracts?	Apply to be an Authorised Economic Operator

SEPT 2018 — 6 MONTHS TO GO

DECISION DEADLINE	LAST CHANCE TO
Do you need to move IP to the EU?	Implement customs and VAT systems
	Implement cross-border merger
	Apply for new licences and move your IP
	Increase inventory
	Implement new logistics plans

MAR 2019 — DEADLINE

MANOEUVRE EARLY

NARROW CHANNEL AHEAD

SHALLOW WATER

START?

FINISH?

- Exit from Customs Union
- Regulatory/ Passporting
- Corporate Tax & Structure Impacts
- Immigration & People
- Exit from EU R&D Funding Framework
- Brand, Customer & Identity Impact

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The 'Next-Gen Traveller': How the changing consumer is influencing the US leisure sector

It's no secret that technology has changed the way we live. Instead of being merely an accessory, it has become embedded into our lives, and has impacted how we work, play, learn and even how we interact with one another. As a result, our expectations and behaviours are starting to change in ways that were never predicted ten years ago. The effect on leisure, hospitality and travel is being felt at every touchpoint. Travellers expect more in terms of personalisation, choice and responsiveness. And while this has made the industry even more exciting and dynamic, it has also posed new challenges for the industry to adapt to.

So what's changed?

As US travel enterprises (both established and start-ups) respond to increasing customer expectations, they are trying to find new ways to stand out from the crowd. The hospitality industry particularly is starting to invest to create a better and differentiated experience than their competition – and this is happening at a rapid pace. In addition to the usual cast of competitors, players such as Airbnb are approaching the guest experience in new disruptive ways. So whether investing in brand, infrastructure or acquisitions, the risk remains the same – companies need to innovate or lag behind.

The digital and physical are converging

Digital technology has become integral to our daily lives. With near ubiquitous connectivity and the mass adoption of smartphones, tablets, and digitally connected devices, people see their digital interactions as important (and as real) as their physical interactions. In essence, this convergence of the digital and the physical is changing the way people live on a day-to-day basis.

Brand engagement is more meaningful

This has had a significant impact on how consumers choose to engage with brands. As digital plays a more significant role in peoples' lives, their interactions with brands have become more frequent and more meaningful. This near-continuous interaction has changed the expectation of the average consumer who has come to expect instant recognition and immediate responses from brands they engage with. This in turn raises the stakes on every interaction a brand has with them.

Every engagement has heightened consumer expectations

While travellers may not choose to contact customer services as often, they expect their experience to be special when they do. In many ways, US travellers are silent ones – preferring digital means of communication (i.e. text, social, instant message, email). They're highly independent and prefer being autonomous, defaulting to self-service options when available. However, for unique or complex moments that require human interaction, they expect more than just the same fluidity of an app – they expect near magical moments.

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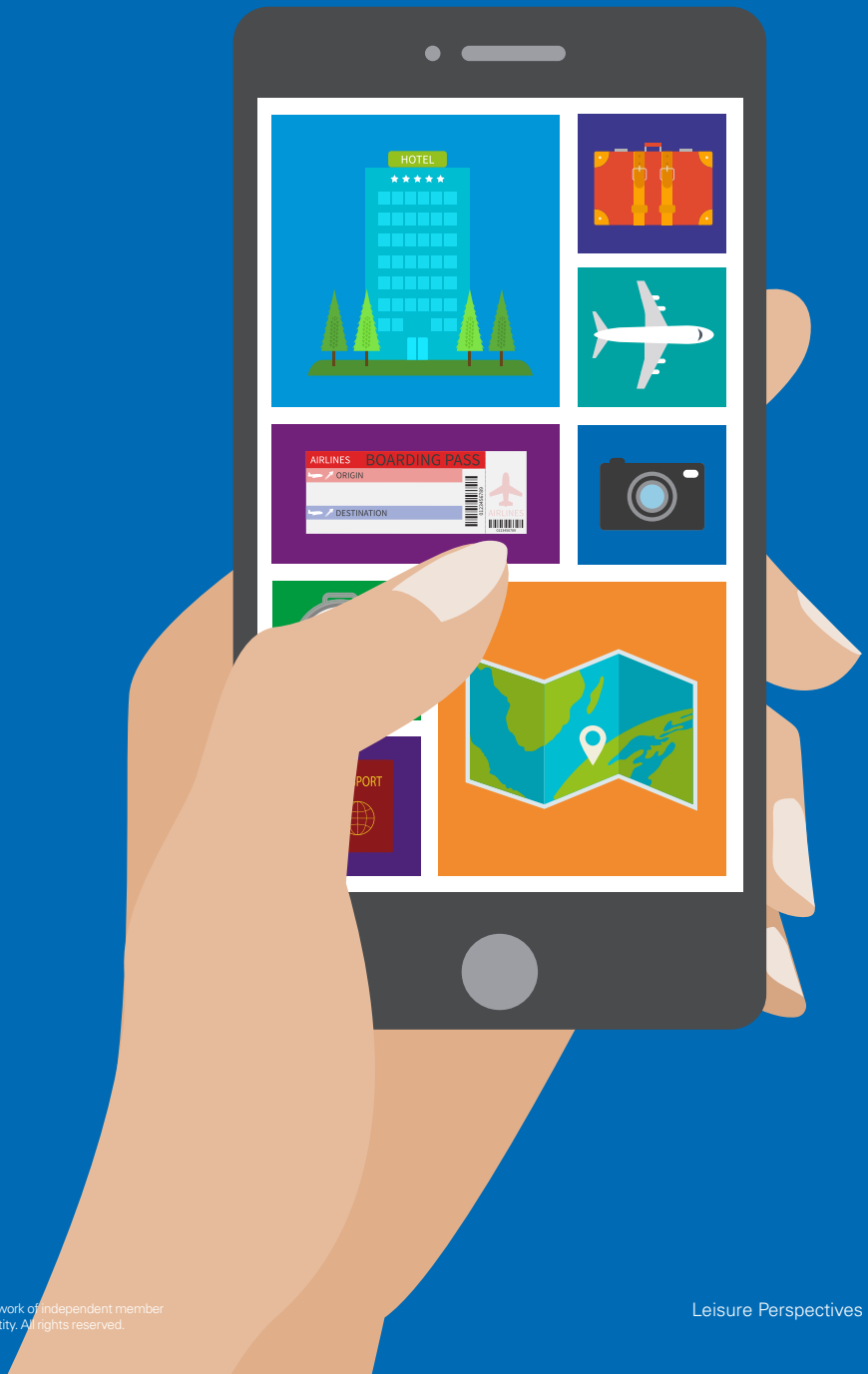
Consumers are exchanging their data for a better experience

The data dilemma: to share or not to share? People are getting comfortable sharing their information, but expect more in return. Along with the ubiquitous connectedness has come the proliferation of personal data. Whether this is personal information, geolocation data or even financial and health data, people know that their data is being collected and shared every day. On one hand consumers are more concerned than ever about what they share and with whom. On the other, people are willing to share more if it yields more relevant and meaningful service experiences in return.



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What are the characteristics of the next generation traveller?

The next generation traveller is tech savvy, highly curious and well informed. They are known to use many different resources before, during, and after their journey. Many of these 'next-gen' travellers are classified as 'millennials' or 'generation Y'. In addition to multi-channel use, US travellers use any and all devices throughout their journey. Primary and secondary screen usage is interchangeable between smartphones, tablets, and computers.

1946 - 1964

Baby Boomers

The generation born in the post WW2 baby boom. Baby Boomers enjoyed free student grants, low house prices and they now hold the reins of power and have the most economic clout.

1965 - 1979

Gen X

The generation also known as Gen Bust because their birth rate was vastly lower than the preceding Baby Boomers. Gen X are now becoming the 'helicopter parents' of Gen Z.

1980 - 1995

Millennials

The generation reaching adulthood in the early 21st century. Also know as Generation Y, they have been shaped by the technology revolution that saw computers, tablets and the web become central to work and life.

1996 - 2010

Gen Z

The generation reaching adulthood in the early 21st century. They are also hailed as 'the first tribe of true digital natives' or 'screenagers'.

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1

Expectations are shaped by experiences from other industries. As US travellers use more advanced technology in various aspects of their day-to-day, they develop a set of higher expectations as it pertains to their online and physical experiences. Their expectations have carried into all of their interactions regardless of industry and what they experience in one, is a disappointment when not available in another. This makes keeping up the pace with not only the hospitality industry, but banking, retail, media and others, imperative to making US travellers happy.

2

Behaviours differ compared to other generations when planning, booking and travelling. With a population bigger than the Baby Boomers, and a penchant for travelling greater than any other generation, the next generation of travellers can't be ignored. As digital natives, they're already engaging with hospitality brands, and forming their loyalties and habits differently from past generations. This makes understanding their preferences and how travel brands can better engage them a matter of urgency.

3

Loyalty is harder to earn, but touches millennials at an emotional level. Although loyalty is harder to earn than other generations, when it is earned it touches millennials at an emotional level. Long thought of as lacking brand loyalty, most millennials consider themselves as loyal to brands as Gen X are. However, they also believe that their loyalty is harder to earn. This means that as travel brands consider their relationship with the next generation of travellers, they need to identify the things that matter most to their customers and figure out ways to shape experiences that scale across their network of hotels and properties.

4

Interaction is desired through preferred channels. The next generation of travellers are digital natives and prefer to communicate in the channel (or using the device) of their choice. But that doesn't mean they don't want a truly human interaction. If anything, they expect information to be more tailored to them and responses to be near immediate. And if it's not, they have no hesitation in broadcasting their dissatisfaction to the world.

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How should the leisure industry respond?

In order to meet the demands of the next generation of travellers, successful enterprises will need to shift from their traditional mindset of providing 'service' for their guests to the concept of being a 'host' for their guests. The shift from traditional service to host requires a new way of thinking about the customer – one that prioritises long-term relationships over transactions and is enabled by tools, processes and people all orchestrated on behalf of the guest. A host is anticipatory in nature and will require a platform and tools that allow smarter ways of leveraging data, making insights actionable in order to anticipate the intentions of the guests. It's also channel-agnostic where every touch-point is a piece of a continuous and seamless dialogue with the guest.

We've outlined four key considerations on how you can respond whether this is from a guest, employee, or enterprise perspective.

1. Build relationships with guests

In a highly competitive landscape where loyalty is fickle, building relationships is more important than ever. If US travel organisations invest in getting to know their guests over time and throughout their journey, they can act on those learnings and create raving fans for their brands.

- How will customers' expectations change once they feel they are in a relationship with a brand?
- How will employees be incentivised to think and act in terms of relationship-building as opposed to completing tasks?
- What are the key performance indicators that will be used to measure the depth of guests' relationships? How can they ensure that a relationship translates into revenue?

2. Get to know the traveller

Many travel organisations in the US are investing to consolidate disparate data sources to develop a single view of their guests. Failing to do so will hurt the quality of the guest experience and the ability to treat them to the standard the traveller feels they deserve. When guests have to repeatedly call for the same requests, they feel as though they're not recognised (and thus valued). US organisations are looking to be more capable of tailoring their experience and demonstrating just how valued they are.

- How can organisations incentivise customers to share more information about themselves? What are the tangible benefits to the guests?
- How does the guest information need to be synthesised and presented to help employees to act on it?
- Once travellers have given their information, how can the enterprise use it to create personalised experiences at scale?

3. Provide a seamless experience across channels and pathways

Though many travel organisations have made strides in terms of defining their brand in their marketing and communications, the cross-channel interactions do not reflect this. If the enterprise can translate what their brand stands for in the execution of their service experience, they can ensure that every interaction with their guest, whether digital, voice or face-to-face, is consistent and reflective of their brand.

- How would the enterprise ultimately want their guest to describe them? What keeps them from doing this?
- Do the employees know how the brand values translate into actions that they take on a day-to-day basis?
- What priorities need to be made in bringing the brand to life for their guests?

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4. Evolve the 'human touch' from service to host

While professionalism and problem-solving abilities for frontline employees is universally recognised as important, it is becoming more important that this role needs to change according to the expectations of customers, especially the next generation of traveller. When they reach out to communicate (in any channel) with a real person, they expect more than transactional knowledge. To please them, employees will need to do more, from problem solving to curating and consulting. Employees can be constrained by the decisions they can't make and the actions that they can't take. As a result, the guest experience runs the risk of adding more time and effort to get something done. Equally important is the sense of frustration experienced by the employees who don't feel as though they're entrusted with simple decisions.

- How far beyond the walls of the hotels are guests willing to trust the enterprise?
- What types of training and tools will employees need to make 'hosting' continuous across channels?
- How will the organisation need to change in order to create the cross-channel collaboration that is necessitated by the 'host' concept?

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Characteristics of successful travel and leisure businesses in 2018:

Knowledgeable
Successful businesses are localised, accessible and insightful. Easy access to the right information by anyone (front desk to associate) at any time (from booking to room preparation) enables informed decision-making, recommendations and actions.

Resourceful
Successful businesses are well connected, flexible and helpful. The knowledge and service extends beyond the four walls. A generally embraced 'make it happen' attitude elevates the level of care making it 'personal' while partnerships present new and exciting options.

Proactive
Successful businesses are thoughtful, dynamic and empowered. Detailed data about the guest provides the power to enable a high level of agility to diagnose, assess and make decisions ahead of time – identifying issues before they arise and allowing staff to focus on delivering value to the traveller in a cost-effective manner to the enterprise.

Overcoming cultural barriers: Chinese outbound investment in the leisure industry

According to the Ministry of Commerce of China (MOFCOM), in 2016 total outbound investments reached a record high of $170 billion[10]. Most of these investments have been focused on North America and Europe. In particular, the globe has witnessed a wave of strategic and financial investments from China ranging from hoteliers to insurance groups to airlines making acquisitions in the hospitality space.

In light of the surge of outbound investments into real estate, hotels, cinemas, entertainment and sports clubs, various authorities have taken different measures which has increased regulatory scrutiny on outbound investment transactions and tightened control on capital outflow.

10 Ministry of Commerce People's Republic of China (2017) *Brief Statistics on China's Non-Financial Direct Investment Overseas in 2016* [online] Available at: http://english.mofcom.gov.cn/article/statistic/foreigntradecooperation/201702/20170202522271.shtml

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What regulations are already in place?

Since December 2016, the China authorities have issued a series of guidelines and regulations in relation to the governing of outbound investments:

— Joint statements issued at a press conference on 6 December 2016 by National Development and Reform Commission (NDRC), MOFCOM, the People's Bank of China (PBOC) and State Administration of Foreign Exchange (SAFE)[11].

— Notice of Further Guidelines and Regulations on the Directions of Outbound Investments issued jointly on 4 August 2017 by four Chinese authorities (NDRC, MOFCOM, PBOC and the Ministry of Foreign Affairs (MFA))[12].

— Measures for the Management of Overseas Investments in Enterprises issued on 26 December 2017 ('the Regulations') by NDRC. The Regulations will come into force on 1 March 2018[13].

What do these regulations mean, and will they be tightened?

China is not outright banning overseas investment into real estate and hotels, and it is important to note that there are no specific value thresholds where such investments would become prohibited. The key consideration is whether such deals are completed in a prudent and reasonable manner. This means that unless outbound investments are related to China's 'One-Belt-One-Road' initiative, they will remain slow.

What are the challenges post-acquisition?

The global hospitality landscape has changed significantly over the last decade with the emergence of disrupting short-term rental players and major international deals consolidating market leaders. Players like Airbnb have challenged incumbents' positions, providing a differentiated offering and pressuring pricing strategies. Due to competitive pressures, players have looked toward M&A to boost revenues and protect margins. Major deals, such as Marriott's acquisition of Starwood Hotels[14] and Jin Jiang International's acquisition of Louvre Hotels[15] are forcing the leisure industry to build scale in a bid to protect market share[16].

11 Baker McKenzie (2017) *New restrictions on China Outbound Investments* [online] Available at: https://www.bakermckenzie.com/en/insight/publications/2017/01/new-restrictions-china-outbound-investments

12 Office of the State Council (2017) *Opinions on Further Guiding and Standardizing the Orientation of Overseas Investment by the National Development and Reform Commission* [online] Available at: http://www.gov.cn/zhengce/content/2017-08/18/content_5218665.htm

13 National Development and Reform Commission (2017) *Measures for the management of overseas investments in enterprises* [online] Available at: http://www.ndrc.gov.cn

14 Starwood Hotels (2015) *Marriot International to Acquire Starwood Hotels & Resorts Worldwide, Creating the World's Largest Hotel Company* [online] Available at: http://news.marriott.com/2016/09/marriotts-acquisition-of-starwood-complete

15 Hospitality Net (2015) *Starwood Capital Group completes the sale of Groupe du Louvre and Louvre Hotels Group to Shanghai Jin Jiang International Hotels Development Co., Ltd.* [online] Available at: https://www.hospitalitynet.org/news/4069285.html

16 Carlson Wagonlit Travel (2016) *Hotel Industry Consolidation: Marriott's latest mega-merger may be a game changer* [online] Available at: https://www.carlsonwagonlit.com/at/en/insights/report/20160628-hotel-industry-consolidation-marriott

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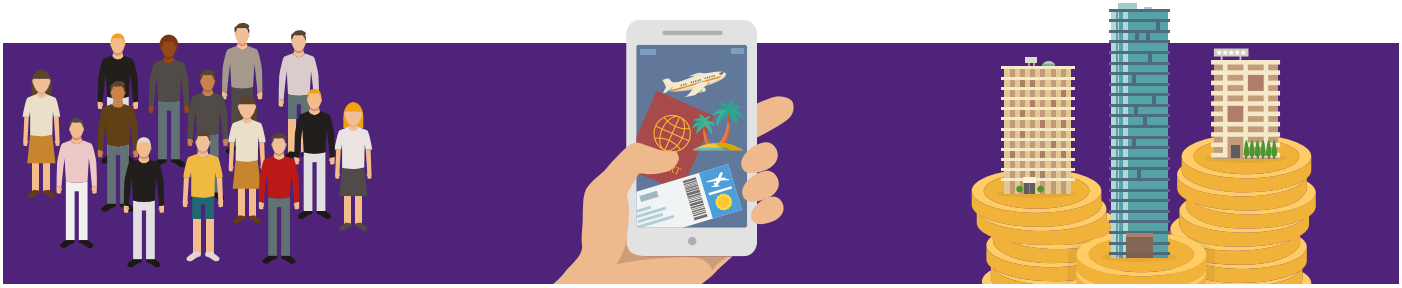
What factors drive successful deal executions?

Executing these deals is far from simple. Three key value drivers for hospitality players to thrive in a post-deal environment are outlined below:



Growing the customer base

Driving customer growth and increasing share of the customer wallet is the key to unlocking revenue opportunities. For industry players, working together effectively requires having a knowledge of how to differentiate your offering through leveraging both companies' strengths. Winners in multi-brand strategies are those who are able to engage and communicate with their customers in order to provide them with complimentary offerings that fulfil their needs.

Cooperating with online travel agents (OTAs)

Channel management is another key value driver for hospitality groups. While OTAs have been an excellent tool for hotel groups in managing occupancy rates, this service comes at a cost. The growth of OTAs has resulted in significant margin erosion for all travel and hospitality groups. Large acquisitions provide groups with significant increases in assets and a larger customer base. Savvy groups can leverage this to push direct sales channels, which can improve margins and cross-selling and drive better commercial terms with OTAs.

Realising operational savings

Combining costs through acquisition can create tremendous value for hospitality groups. By integrating core business functions, this allows merged entities to benefit from newly found economies of scale. These savings protect margins as hoteliers face pricing pressures from disruptors such as short-term rentals. However, realising these savings requires deep organisational integration across core processes also supported by system enablement.

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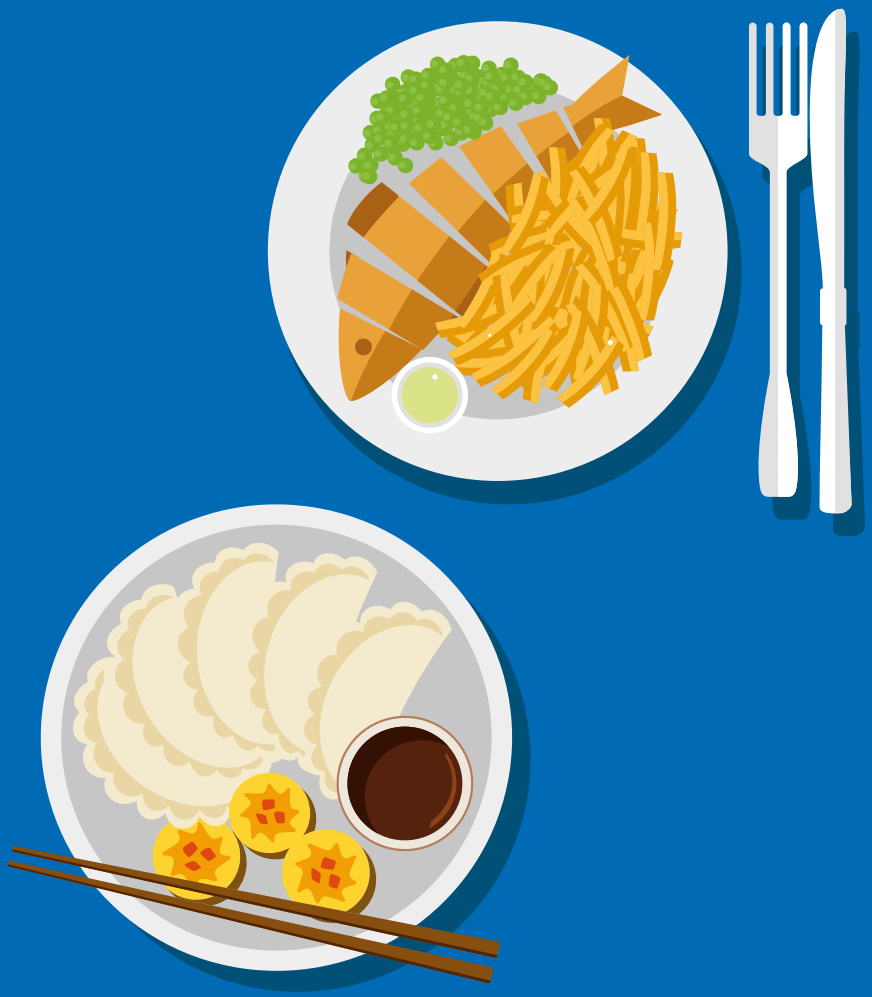
Respecting cultural differences

Regardless of whether companies opt for integration or collaboration, the most obvious challenge in any cross-border deal is cultural barriers. This ranges from executive management and corporate culture, down to operational relationships. International hospitality ventures have the dual challenge of having to localise, find and retain both local and international talent. Juggling these factors whilst striking a cultural resonance with a company's roots, management and owners can prove quite difficult.

This, however, does not mean to say that culture is a barrier to success. Through identifying both value drivers and potential pain points, companies can work together to create value for shareholders and customers alike.



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Changing taste buds and healthy priorities: Will leisure look to health and wellness for growth?

“Do you have a gluten free menu? Is your produce organic? Are there vegan options?”

It’s no secret that consumer tastes and preferences are changing. This becomes particularly prevalent at the start of the year when the ‘new year, new me’ mentality kicks in, and consumers’ focus turns to achieving their new year’s resolutions. However, what was once a January resolution to eat well, keep fit and stay healthy has extended to a lifestyle choice for many consumers across generations. Some 55% of Americans say that they lived a healthier lifestyle in 2017 compared to 2016, and 45% say that they made significant changes to improve their health[17].

17 Mintel (2017) *Resolution resolve: more than half of Americans report living healthier in 2017* [online] Available at: http://www.mintel.com/press-centre/social-and-lifestyle/resolution-resolve-more-than-half-of-americans-report-living-healthier-in-2017

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The global wellness industry was a $3.7 trillion market in 2015[18], and is still gaining tremendous momentum today. This is due to a convergence of factors including the size of the aging baby boomer population, longer life spans, greater access to information by consumers, higher discretionary spend on wellness products, and experiences that help consumers to feel good. Millennials are now the largest segment of the population with a heightened focus on living in the present, and are using their purchasing power on experiences that they can share via social media platforms with their networks.

With health and wellness increasingly in the spotlight for many consumers, it is important to consider how these preferences and desires for a healthier lifestyle influence their decisions to eat out (or not), travel, and ultimately create brand preference and loyalty.

Is M&A the new R&D?

Large consumer packaged goods (CPG) companies are seeking new product streams to stay relevant, shifting their portfolios towards a greater focus on health and wellness due to the demand for healthy and organic products. This is forcing them to reshape their portfolios to expand into this fast growing segment and create new brands that meet the 'authentic' criteria desired by consumers. Innovation, on the other hand, is a slower process; in addition to coming up with new products, these large conglomerates are speeding things up through merger and acquisition (M&A) activity.

By focusing on consumer wants and needs, could the leisure industry follow suit, and see increased M&A activity in 2018 with a specific focus towards health and wellness?

The US casual dining sector has had high M&A activity for the past few years due to its potential for high returns, and it is predicted that this trend will continue throughout 2018. Additionally, international buyers have been lured into this space because it is less exposed to disruption, particularly in the UK and other countries where organic growth is harder to come by – M&A can drive inorganic growth instead. Consolidation and restructuring could continue as a key theme for the next few years as the growth hubs shift to the US and China.

18 Global Wellness Institute (2018) *Build well to live well* [online] Available at: https://www.globalwellnessinstitute.org/gwi-releases-landmark-report

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Can I pack 'wellness' with me?

Americans are becoming more focused on their health and wellbeing, and not just in terms of eating out. In addition to wearable fitness technology, sugar detoxes, the increased desire for mindfulness, yoga, gut health, cryotherapy (and a long list of other wellness trends…), consumers now expect to take their new found lifestyle wherever they go. Wellness tourism is said to be growing faster than global tourism, as we see an increased number of travellers aspire to incorporate their wellness routine into their travels[19]. For this reason, hotels are starting to consider the possibility of acquiring attractive wellness brands to add value to their offering for consumers.

> **"Consumers now expect to take their new found lifestyle wherever they go."**

19 Global Wellness Institute (2018) *Build well to live well* [online] Available at: https://www.globalwellnessinstitute.org/gwi-releases-landmark-report

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Is wellness now an expected 'luxury' in mainstream hotels?

This concept is something that we're already starting to see in hotel brands in the US who are focusing on health and wellness from the design of their hotels, to the services that they offer. The concept of 'wellness architecture' considers how a hotel may design their spaces around the growing focus on health, fitness and wellness, providing guests with the environment that they need to keep up their 'healthy routine', even when on the road[20]. To create this environment, hotels are also starting to think about the new emerging technologies that may enhance the desired experience for customers. For example, Hyatt acquired fitness technology start-up 'Exhale' to expand their brand beyond solely hotels, and into the wellness sector[21]. This was the second acquisition made by Hyatt in 2017 with a direct focus on wellness after they acquired Miraval in January 2017[22]. By making these strategic acquisitions, it allows the hotel brand to leverage the assets and knowledge of both acquisitions, and eventually generate greater appeal for the health-focused consumer.

Consolidating learnings

Looking to both the consumer packaged goods and retail industries, will the threat of 'be relevant or go out of business' cause the leisure sector to take note of changing customer preferences and grab hold of the skills they need to outpace the rest of the industry? Globally, we expect to see further interest in deals in the casual dining space. However, the UK may experience another tough year due to cost headwinds from wage and employment regulations, an unfavourable foreign exchange position and consumer uncertainty.

Drivers for M&A in the US hotel and restaurants sector in 2018:

- Cost pressures including labour and real estate
- Changing consumer tastes and preferences
- Customer demand for speed and convenience
- Demand for healthier and organic products
- New tax legislation in the US (US Tax Reform)

For further insights on the factors shaping global consumer and retail trends in 2018, see KPMG's *Capturing new growth opportunities* report[23].

20 Martin, O (2017) *Wellness design is spreading across hospitality architecture and beyond. The Architects Newspaper* [online] Available at: https://archpaper.com/2017/05/wellness-design-hospitality-architecture

21 CB Insights (2017) *Facebook, Hyatt, Weight Watchers, and others are scooping up fitness tech startups* [online] Available at: https://www.cbinsights.com/research/fitness-tech-mergers-acquisitions

22 Ting, D (2017) *Hyatt buys yet another wellness brand, exhale.* Skift [online] Available at: https://skift.com/2017/08/29/hyatt-buys-yet-another-wellness-brand-exhale

23 KPMG (2018) *Capturing new growth opportunities* [online] Available at: https://home.kpmg.com/xx/en/home/insights/2018/02/global-m-and-a-consumer-and-retail-trends-2018.html

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The American gaming experience: What lies ahead?

"There are currently only four States in America where it is legal for operators to offer sports betting to varying degrees: Nevada, Montana, Oregon and Delaware."

The Super Bowl is one of the biggest events on the US sporting calendar. 103 million football fans[24] tuned in this year to watch the Philadelphia Eagles make history, as they secured their first ever championship win. However, the Eagles weren't the only ones to end the football season victorious.

Eyes on the prize

Broadcasting network, NBC, racked up an estimated $500 million in advertising revenue. Brands aiming to reach a vast audience paid up to $5 million per TV slot[25]. Thousands of enthusiasts also travelled to watch the game in person hiking up the proceeds from ticket sales, merchandise and concessions. Furthermore, hotels, bars, and restaurants local to the arena also benefitted from a boost in trading[26]. Elsewhere in the US, $100 million worth of bets were placed on the Super Bowl in Las Vegas casinos[27], and with ample opportunity to profit from the Super Bowl and other large-scale sporting events, the gaming industry has taken notice. However, the State of New Jersey is leading the pack, battling its way at the US Supreme Court for a piece of the sports betting prize.

Can New Jersey hit the jackpot?

The Professional and Amateur Sports Protection Act (PASPA) was introduced to make sports betting illegal in the US due to fears around the harm it could cause. This was supported by major sports leagues such as the National Football League (NFL), National Hockey League (NHL), National Basketball Association (NBA) and Major League Baseball (MLB) as they shared concerns around corruption of professional and amateur sports players.

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24 Pallotta, F (2018) *Super Bowl ratings are down, but 103 million people watched* [CNN] Available at: http://money.cnn.com/2018/02/05/media/super-bowl-ratings/index.html

25 Bond, S (2018) *NBC expects $1.4bn in ad sales revenue from the Super Bowl, Winter Olympics* [Financial Times] Available at: https://www.ft.com/content/9fb448b4-aa49-31dc-8a46-13396db95859

26 Christou, L (2018) *Super Bowl revenue: how much money does the big game generate and where does it go?* [Verdict] Available at: https://www.verdict.co.uk/super-bowl-revenue

27 Legal Betting Online (2018) *Super Bowl 52 Betting Guide Covering Legalities, Odds and Where to Bet.* Available at: https://www.legalbettingonline.com/sports/football/nfl/superbowl.html

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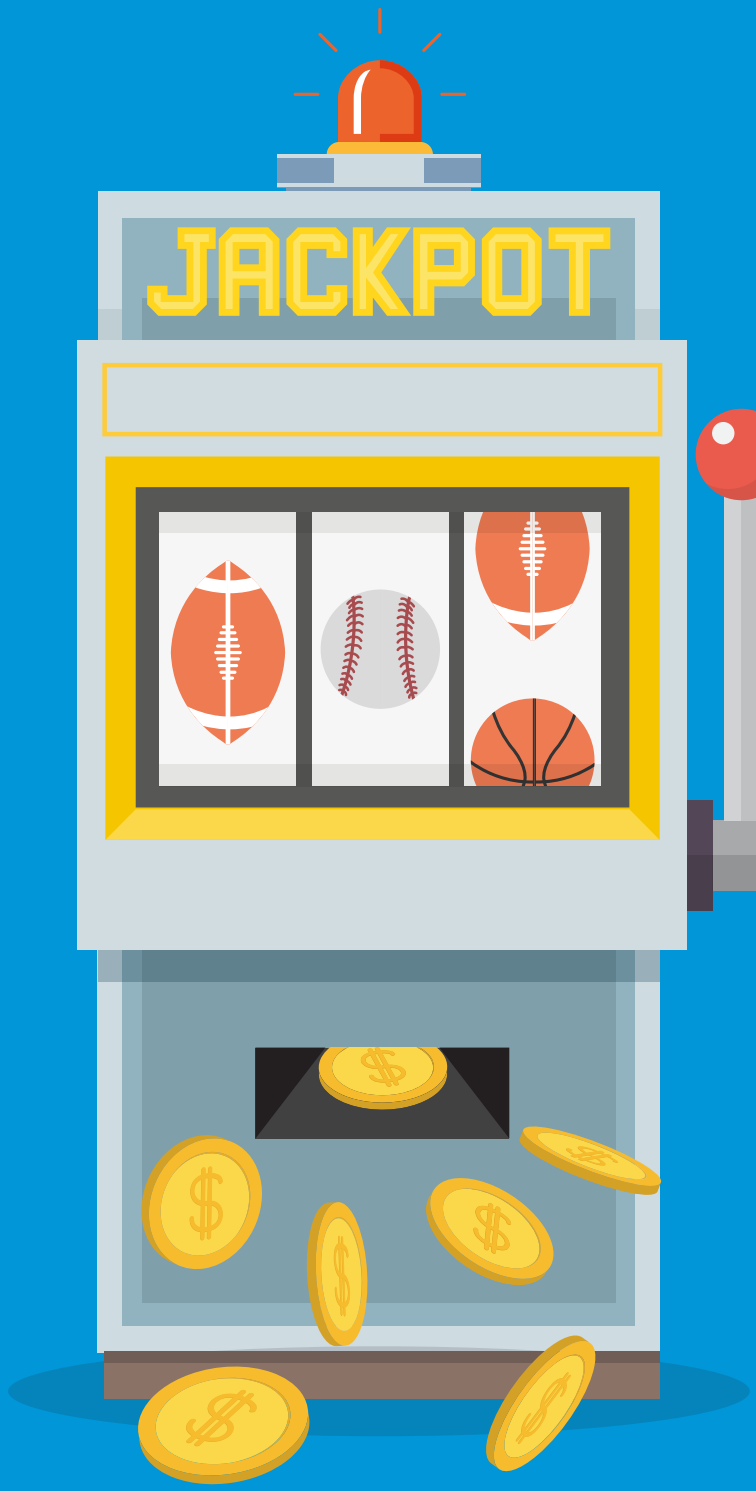
To make any sense of what seems an 'unusual' legislative system for betting in the US, we have to understand the history and in particular the involvement of organised crime in sports betting. In the Black Sox scandal in 1919, eight members of the Chicago White Sox were charged with intentionally losing the 1919 World Series in exchange for money from a gambling syndicate and for their involvement in the 'mob' in the early days of the Las Vegas gaming industry.

As such there are currently only four States in America where it is legal for operators to offer sports betting to varying degrees which are Nevada, Montana, Oregon and Delaware. PASPA granted these areas an exemption prior to its enactment as they already had sports betting legislation in play[28].



28 OGS (2018) Professional and Amateur Sports Protection Act – PASPA. Available at: https://www.onlinegamblingsites.com/law/paspa

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Which brings us to the present day and the New Jersey case, *Christie versus the National Collegiate Athletics Association (NCAA),* being heard in the US Supreme Court arguing that PASPA is unconstitutional. Critically, what's important to note is that the argument behind this case is not so much about gambling as it is the constitutional remit of Congress versus the state, going to the very core of the 10th Amendment. However, gambling is the test case and of course, this is a potentially large opportunity for all involved in the sector, hence the excitement.

The case has been heard and most commentators expect the verdict in June 2018[29]. There are large estimates of the size of the potential market, as high as $6.03 billion annually by 2023[30], should New Jersey win the case but there are also a number of factors that contradict this. For example, deregulation will be on a state by state basis over time and of course, not every state will want to legalise sports betting. The regulation and taxation will also differ by state and each one will need a licence. This is likely to be a costly and time consuming process.

What's more, all betting will need to be intra-state only as the Interstate Wire Act of 1961 will still be in place, prohibiting certain types of betting operations. Gaming businesses will need to physically establish operations in each state and cannot bring services in from a central hub, which again is likely to have huge cost implications.

Who will reap the rewards?

We are seeing sports bodies demand their slice of the pie such as the NBA suggesting a 1% levy[31] on its sport. What will the others want and does this make the economics unviable for operators?

On the positive side should New Jersey win the case in June it is believed that legal bets could be taken by operators in the state by the start of the new NFL season in September 2018. Other states such as Connecticut, Mississippi and Pennsylvania will not be far behind.

The operators that will benefit and the sub-sectors of the industry they sit in is also an area of great speculation. We have already seen M&A activity as a result of opportunities such as the Scientific Games acquisition of NYX including the Openbet sports betting platform.

Will UK operators such as William Hill capitalise on the opportunity as they already take bets in Nevada as well as other UK players with existing New Jersey licences such as GVC and Paddy Power Betfair? Could these operators become acquisition targets for US bricks and mortar gaming businesses? How will the private equity market, already a keen investor in the sector, respond? And is it possible that large tech giants will even enter into the sector themselves? The possibilities are endless!

Whatever happens, there are key areas for consideration for betting operators who wish to apply for US licences in the future.

29 Purdam, E (2017) *Supreme Court hears arguments in New Jersey's case to legalise sports betting* [ESPN] Available at: http://www.espn.co.uk/chalk/story/_/id/21666701/supreme-court-hears-oral-arguments-new-jersey-case-legalize-sports-betting

30 Heitner, D (2017) *How legalised sports betting could bring in $6.03 billion annually by 2023.* Forbes. [online] Available at: https://www.forbes.com/sites/darrenheitner/2017/09/27/how-legalized-sports-betting-could-bring-in-6-03-billion-annually-by-2023/#4b87892e79ec

31 Rybaltowski, M (2018) *Gaming industry execs question feasibility of NBA's proposed integrity fee.* Forbes [online] Available at: https://www.forbes.com/sites/mattrybaltowski/2018/01/25/gaming-industry-execs-question-feasibility-of-nbas-proposed-integrity-fee/#1e4f3e69a157

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Five steps to consider:

There are five key steps that gaming operators looking to expand in American markets should consider if the federal ban on sports betting is removed.

1. **Determining suitability:** To protect your company's reputation and mitigate negative media attention, rigorous practices must be put in place that ensure all employees are free of inappropriate associations and behaviours, and can demonstrate high ethical standards. Failure to disclose this information could threaten a licence application. If in doubt, declare!

2. **Implementing robust internal controls:** Operators must have strong operational and financial controls.

3. **Upholding the integrity of sport:** Sports leagues will need reassurance that match fixing will not become commonplace. Gaming companies should work in collaboration with them and keep the lines of communication open and honest.

4. **Navigating fees and taxes:** The location of trading will have implications on the fees and taxes involved. Each state will be different and a deep understanding of each state's regulation and history of existing gambling activities will be crucial, such as tribal state operations.

5. **Know your customer and protect the vulnerable:** Operators must strictly avoid marketing that may attract under-aged consumers through any channel and set up their operations responsibly with robust systems and processes to aid the early identification of vulnerable customers.

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Checking in? Could thinking like a hacker protect your customers and their data?

"Holidaymakers warned to protect phones and laptops when travelling to Europe", "Cyber attack hits 1000+ hotels in the United States", "Large hotel chain discovers credit card breach again", "Hotel hit by ransomware attack" – these are only snippets of the headlines that have featured in the leisure news since a wave of cyber-crime activity started to target large hotel chains in 2015.

Three years on, and the leisure industry has woken up to the threat of cyber attacks, but they're not the only ones speeding up: hackers have become more sophisticated, better informed of the processes and systems in place, and are finding more ways to beat security systems. They are also sometimes not being detected until a few months after gaining entry into the system allowing a prolonged time to steal customer information.

With a number of recent breaches of this nature, it is important not only to be perceived as a secure and trustworthy brand, but to actually gain customer trust through having legitimate risk processes in place.

The defence plan – protecting your hotel from risk

In order to combat cyber attacks and shield your business from risk, it is paramount to have an understanding of how you may be hacked – in essence: think like a hacker to beat them at their own game. How will they attack? When will they attack? And what is their motivation?

Jacob is 25 years old. He is part of a group that runs 'hacktivist' operations. The group are skilled with a high understanding of networking and programming. He can code and build attack platforms by misusing cloud services and also gain access to trusted programmes. He is financially motivated and will carry out cyber attacks over prolonged periods of time.

Ransomware attacks: It only takes one employee to open a malicious attachment, and the doors are opened for Jacob. When Jacob sends a ransomware mail, he actually wants you to get your files back. This could also potentially affect your electronic door lock system, locking all of your guests out of their rooms. If he doesn't return your files, then his business model doesn't work.

Vulnerability in key card locks: Jacob can attach a circuit board on the key card locks on the doors in a global hotel chain. After attaching the device, it can then be unlocked without a key card. Once inside, high value goods can be located and stolen.

Wi-Fi via laptops and phones: The increased connectivity via Wi-Fi, Bluetooth, cellular, among others, provides additional attack surfaces for hackers like Jacob. As more devices connect to the internet via Wi-Fi hotspots and the cloud, opportunities will increase exponentially for hackers to come into the enterprise via other connections and third-party service providers.

Credit card details: Jacob and the hackers recognise vulnerability in smaller organisations that possess highly valuable customer credit card data. If there are weaknesses in the infrastructure that protects this data, then it becomes easier for Jacob to obtain this information.

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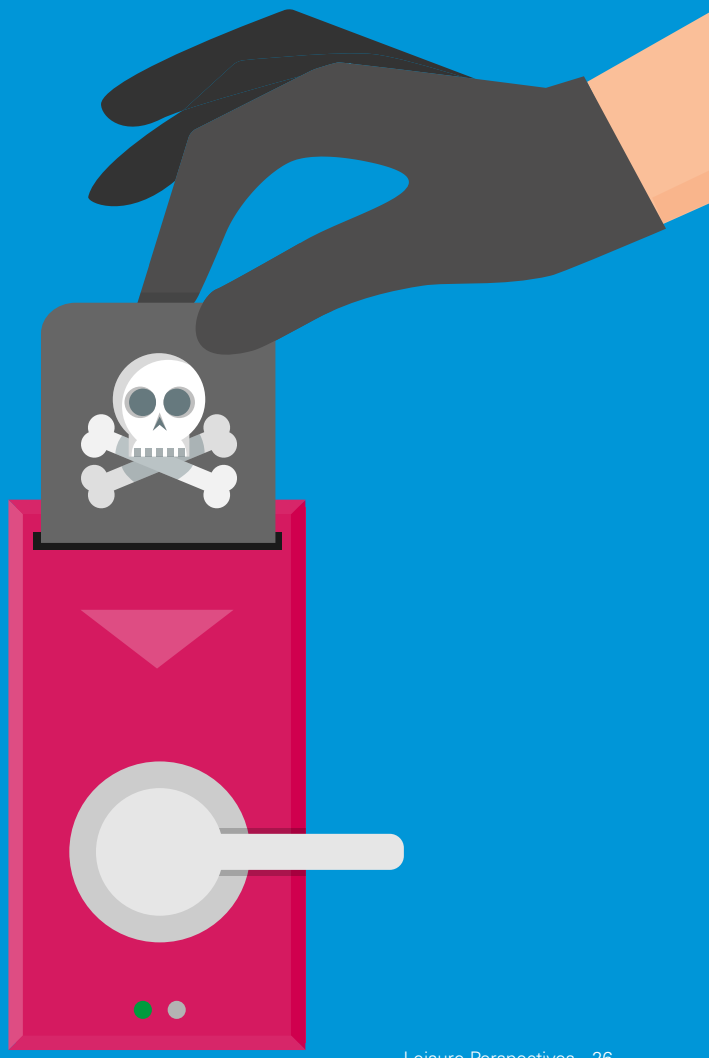
Customer services: Successful hotel brands have a focus on providing an excellent customer experience. But what happens when hackers like Jacob take advantage of the information that customer service agents will be willing to disclose to 'go the extra mile' for customers?

Distributed Denial of Service (DDoS): Criminal groups like Jacob's continue to exploit insecure 'internet of things' devices as sources of attack traffic for denial of service attacks, leading to more and more extortion attacks.

Third-party reservation systems: Hackers like Jacob know that it's getting more difficult to hack a hotel's systems directly, so they look to other avenues of entry. Third-party payment systems such as online reservation bookings, gift shops, spas etc. could provide a more vulnerable point of access for Jacob that may not have the same level of security as the hotel itself.

Loyalty programmes: Loyalty programmes are commonplace in the hotel industry and extremely important to the large global operators, with many brands now offering points and rewards in return for frequent and loyal custom. However, this could be comprised with a simple telephone hack, which would put both the customer's data and well-earned rewards at risk.

Credit card fraud: Hackers like Jacob use stolen credit card details (that they've either hacked or bought on the dark web) to make a pre-paid reservation in your hotel under a fake name. The rooms are being sold in real time on the internet to other guests for a large discount, unaware of the scam. You only find out about the scam when the guests have gone and the bank reverses the payment.



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Preparing to hack: The approach

1. Identifying the vulnerabilities

Jacob and the hacktivists experiment to uncover any weaknesses in the hotel's security systems. They're creative and persistent in their approach, thinking curiously to expose the possible routes of entry.

2. Scanning and testing

Before deciding which attack they will carry out, Jacob and his team critically test all potential routes of access. They observe and apply critical thinking whilst they determine how to proceed.

3. Gaining access

Using the knowledge gained in the scanning and testing phases, they plan the access plan, with a focus on results in mind.

4. Maintaining access

In order to maintain access, they are willing to adapt their approach as necessary to stay inside.

5. Monetise

Hackers will use the access they have to make money through deploying ransomware, or stealing information, reservations or assets from you.

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The response plan – how to react in the event of a data breach

The threats from cyber criminals are real and are getting more organised. Companies need to think about not only how they defend their business, but how they respond if a hacker gets in. The difference between a good and a bad response can have a significant impact on reputation, and potentially share price. With the revised EU General Data Protection Regulation (GDPR) coming into force on 25 May 2018, all companies that store, process and use customer data must rethink their data protection procedures.

This also heightens the need for an effective response plan to be outlined in the event of cyber breaches.

The steps that you could consider taking in response to a data breach

Although this specific example considers cyber in the context of hotel operations, the same principles and risks apply whatever sector you operate in.

1. **Be prepared:** Understand whether you would know when you are attacked and what you need to do. Prepare run books and rehearse them with your technical and leadership teams periodically.

2. **Evaluate the severity:** Consider what you know, and what you don't know. Deliver clear, accurate and consistent messaging internally, to the regulators and also to your customers.

3. **Get the right people involved:** Ensure that the Chief Operating Officer or whoever is responsible for your cyber security is informed immediately. Legal counsel, security, IT, marketing and PR departments must also all be tightly involved in the response process to make sure that the right coordinated actions are taken.

4. **Communicate appropriately and effectively:** Where customers are affected, plan what relevant information is to be released to stop other information leaking out. Work with the PR and marketing teams to decide what is to be publically known to reduce undue panic and confusion with customers.

5. **Learn from the attack:** Review security controls and consider what you know about this attack to mitigate it happening again in the future. Know what the threats were, conduct advanced planning and have the correct systems and staff in place.

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Smart travel: Can blockchain keep customers happy?

The start of a new year is always a busy time for booking holidays. As the excitement of the Christmas season draws to a close, consumers quickly turn their attention towards the next big event they can add to their calendars. With an influx of promotions from travel operators splashed across social networks and email marketing campaigns, it's clear that airlines and tour operators are hoping to cash in on the January sales by tempting consumers to travel abroad.

Yet, even when they're planned far in advance, unexpected occurrences can happen on the day consumers are booked to depart. In fact, in 2016 there were almost 450,000 flights delayed coming in and out of the UK alone[32]. Flight delays and cancellations can quickly bring holidays to a grinding halt before travellers have even left the airport. The knock-on effects are costly, causing some passengers to miss their connecting flights to other destinations, having to pay late check-in fees for hotels, or even arriving to find that they've lost their room reservation altogether. This could significantly impact net promoter scores (NPS) and raise the level of complaints. So what can be done?

32 Burnett, Rachel (2016) *Long haul travellers could be entitled to £250 if their plane landed between three or four hours late, or £510 if their flight was at least four hours behind schedule.* The Independent [online]. Available at: http://www.independent.co.uk/travel/news-and-advice/thousands-of-passengers-are-missing-chance-to-claim-compensation-for-delayed-flights-a7178081.html

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Transform the customer experience

More than ever, consumers are choosing to spend their disposable income on experiences rather than physical products, leaving airline companies and other tour operators a chance to gain a lucrative chunk of the consumer's wallet. However, when a flight is cancelled, customers who are forced to undergo lengthy and complicated claims procedures and shown a lack of empathy throughout the process, may switch to competing airlines for future bookings. As a result, the airline company misses out on repeated revenue and also sacrifices their market share and positive online reviews.

What's more, almost a quarter of holidaymakers don't purchase travel insurance[33]. The same hassle of making a claim often deters their buying decision. This means there's a sizeable portion of the travel market – 25% – that no insurer is making money from at all.

To meet consumers' expectations when things go wrong, and ensure future profitably for the airline, tour operator and insurer, there needs to be greater synergy, a smoother claims process, and transparency across the board. Emerging technologies such as blockchain could be revolutionary and rise to the challenge.

Leveraging new technologies

Blockchain can facilitate rapid and automatic reimbursement to consumers in the event of flight delays and cancellations. When consumers purchase travel insurance, a record of this transaction, a 'block', is saved on a network – a 'ledger'. The insurance policy is also added to the ledger. It states the terms everyone has agreed with, for example, that the consumer is entitled to compensation if a flight is delayed by more than three hours. In the context of blockchain, this agreement is known as a 'smart contract'.

As soon as the flight delay occurs, the pre-agreed smart contract can be auto-executed by the airline and the insurance company so the consumer receives their compensation without the need to manually apply for a claim. Blockchain technology, therefore holds the power to reduce prolonged disputes between travellers and insurers to something of the past. But how?

Sharing a single source of truth

Blockchain technology can enable all parties to access a shared, single source of truth. The records on the ledger – the transaction and the smart contract – are encrypted. This means they cannot be altered, tampered with, or deleted. They are also timestamped and 'distributed'.

In a private enterprise blockchain, this means the record is distributed to only the relevant involved parties to see: the consumer, the insurer, the airline company, tour operator and global air traffic databases. More transparency between ecosystem participants should mean less disagreements, and eliminates the need for the customer to go to great lengths to prove that they're right when making a claim.

Enhanced operational efficiency

But blockchain's benefits don't end with the customer – it can also be good for business. It has the potential to leave travel companies with fuller pockets and more cash to invest elsewhere. The digital verification of claims renders intermediation redundant. This is because claims no longer have to be handled manually by a middleman sifting through endless amounts of paper. This adds value because insurers can reduce the amount of manual labour required, and ensure that the workforce is being used appropriately and productively.

Reports can also be run directly from the ledger for compliance and regulatory purposes. The introduction of a real-time, immutable audit trail could facilitate proper disclosures and compliance checks, reducing regulatory burdens, and administrative overheads even further.

33 Hickey, Shane (2016) *One in four travellers don't bother taking out insurance, research shows.* The Guardian [online]. Available at: https://www.theguardian.com/money/2016/may/15/travel-insurance-holiday-europe

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Case study: Airline companies using blockchain

Singapore Airlines is launching a new 'digital wallet app', powered by blockchain-based technology. Their frequent flyer programme, KrisFlyer, will come to market at the height of the British holiday season in August 2018, enabling members to exchange 'digital KrisFlyer miles' for products at retail outlets[34].

What is the potential impact?

For vendors involved in the programme, on-boarding could become easier. As more merchants join, customers will be able to use points across multiple touch points, and not just for flight redemptions. The automated processing of transactions could also mean no reconciliations are required, leading to greater operational efficiency.

34 Channel News Asia (2018) *Singapore Airlines' Krisflyer launches blockchain-based digital wallet* [online]. Available at: https://www.channelnewsasia.com/news/singapore/singapore-airlines-sia-krisflyer-digital-wallet-app-9926374

Becoming the first-mover

While blockchain is yet to be commercialised widely in the leisure industry, its applications and potential benefits should not be overlooked. As quality customer service climbs the priority list for consumers, travel companies who fail to meet their expectations will ultimately bear the cost. Blockchain, however, can be used to circumvent some of these challenges and enable businesses to keep customers happy, and hence retain market share. Therefore, as more industry players sit up and take notice of its capacity to manage claims, reluctant airline carriers and insurers could take the hit. Without blockchain, airlines and insurers too could be left behind, like their frustrated passengers waiting for claims on delayed or cancelled flights.

Potential benefits of blockchain for the travel industry

1. **A better customer experience** – Blockchain technology could automatically verify some travel insurance claims so consumers won't need to go through lengthy and complicated procedures. The settlement time is reduced considerably.

2. **Cost savings and efficiencies** – A fully digitised claims management system means IT and administrative overhead costs are kept low.

3. **Regulatory compliance** – With blockchain, the data held on ledgers is immutable. Therefore, the audit trail is consistent and can be trusted for compliance purposes.

4. **Enhanced risk management** – 'Blocks' – records of transactions and contracts between consumers and businesses cannot be tampered with, altered or deleted. This reduces the risk of false claims which may cause airline companies and insurers to pay up unnecessarily.

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Blockchain across the leisure industry

It doesn't end there. Beyond the travel sector, blockchain technology could be used elsewhere in the leisure industry, such as in entertainment and hospitality.

Case study: Sports betting

In sports betting for example, transactions between consumers and betting operators could move to an automated system, allowing for greater transparency.

What is the potential impact?

This could result in commissions received by betting operators reducing. It could also improve the relationship and customer experience, leading to increased loyalty[35].

Case study: Food and drink

Now more than ever, consumers are increasingly concerned about the provenance of their food. They want to know that food has been produced sustainably, and increasingly look to buy locally in a bid to reduce their carbon footprint. Blockchain could provide them the assurance they desire.

For example, when it comes to meat products, some companies are using blockchain-enabled technologies, whereby animals are given a DNA tag. This data along with their veterinary history, what they eat, movement between farms etc. is added to a blockchain ledger. Once recorded on the ledger, this information cannot be tampered with.

What is the potential impact?

Businesses may be able to track the origins and movement of their produce more reliably and incorporate this insight into marketing strategies based on the provenance of their goods. This in turn may attract a growing population of consumers who are interested in sustainability, animal welfare and the 'farm to fork' journey, resulting in increased revenues[36].

35 EGR (2018) *Reinventing the betting exchange* [online]. Available at: http://egr.global/intel/opinion/reinventing-the-betting-exchange

36 Moulds, J (2018) *Blockchain tracks food all the way from farm to table* [online]. Available at: https://www.thetimes.co.uk/article/blockchain-tracks-food-all-the-way-from-farm-to-table-dz9s2zv32?shareToken=2885c6ff0f16453f955216d88186b96c

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Winning the league is not enough to beat the competition

Football is a global, cultural phenomenon. Rarely does a day go by when football doesn't make the news. Avid fans, fierce in their commitment to their favourite team, are hungry for real-time updates on results and fixtures. They eagerly look to the press for the latest information on which players are going where, as the opening of the transfer window drives the rumour mill ablaze. Even the personal lives of the game's elites seem to have taken up permanent residence in a new territory of the papers – the gossip column, showing how football now infiltrates a much broader, though perhaps unexpected audience, who are less sports-mad, and more celebrity-crazed.

"Top UK football clubs have long benefited from the receipt of higher broadcasting revenues than their continental counterparts."

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No one steals the headlines quite like the football manager – willingly or not

How a club performs, defined narrowly by where they place in a league, is an unforgiving measure against which Football Managers are held to account. What's more, everyone seems to be in on their appraisal. For instance, in no other industry have we seen an individual below CEO or board level subject to more public scrutiny, especially as so many clubs are privately owned. Reports in the media run rife and the mass frenzy is only heightened when decisions made against football managers are career-ending.

But what about off-the-pitch performance?

In the business of football, first and foremost, it is critical for CFOs to gain a clear understanding of how their club is performing financially, compared to others in their league, nationally, and internationally. Once benchmarked against competitors, strategies can be put in place which influence other divisions in the organisation, informing how membership, events, operations, corporate relations, and marketing departments can be more effectively managed to bolster revenue and increase club profits.

But this is no easy feat. Differences in reporting currencies and accounting practices across various countries, fluctuating exchange rates, and varying financial year-ends, present a myriad of complex challenges.

On top of this, the findings from KPMG's 2017 analysis, *Football Clubs' Valuation: The European Elite*, show that there are a number of factors that can impact a club's Enterprise Value. These include staff cost-to-revenue ratio, stadium ownership, and club popularity measured through social media engagement. Additionally, broadcasting rights and a league's distribution methods carry significant weight[37].

The battle for airing time in the UK

Top UK football clubs have long benefited from the receipt of higher broadcasting revenues than their continental counterparts. Large media providers such as BT and Sky Sports habitually battle over the rights to air Premier League games live. The Premier League then distributes the income received in roughly a 1.5:1 ratio from the club that finishes in first position to the team that comes in last. For example, the winner of the 2016/17 football season was awarded £150.8 million by the Premier League. The worst-performer, despite finishing 19 places behind, still received a healthy total of £93.47 million[38].

Football Clubs' Valuation: The European Elite

37 KPMG (2017) *Football clubs' valuation: the European Elite 2017* [online] Available at: https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/05/football-clubs-valuation-the-european-elite-2017.pdf

38 BBC (2017) *Chelsea paid £150.8m by Premier League after winning 2016-17 title.* BBC [online]. Available at: http://www.bbc.co.uk/sport/football/40125394

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Elsewhere in Europe, the distribution model is not as equitable

The discrepancies in broadcasting revenue received are much larger across Europe in comparison to the UK. For example, in Spain, a year prior, the winner of La Liga (2015/16) received a fee of €140 million. However, the lowest fee earnt was more than four times less (€28.18 million) instead[39]. Despite this, La Liga have been making concerted efforts to bridge the gap. Four years ago, the income ratio was 12:1, which shows there's been significant progress and La Liga are working to create a more fair and equitable system for the football seasons to come.

Worldwide, there are signs of emerging fringe media players, Facebook and Twitter, vying for a piece of the action. As the trend continues for 'on-demand' and 'on-the-go' content sought after by a younger audience, who are also struggling to pay for satellite TV subscriptions[40], clubs' social media executives are sitting up and paying close attention. It's clear that these companies are flexing their options – live streaming not just football but a number of sports.

Can the physical experience be beaten?

Theoretically, if more competitors bid for broadcasting rights, the process should drive earnings up – leaving all football clubs better off. But given that football is an event, best experienced with family and friends at the pub or within the stadium setting itself, just how well social media networks gain traction remains to be determined. After all, they facilitate individual viewing on handheld devices, which certainly satisfies the convenience factor. However, the camaraderie and team spirit which cultivates when cheering for your favourite team alongside other raring supporters is lost.

The football arena remains a lucrative source for football clubs to increase their enterprise value and beat the competition, financially. However, it's important that CEOs and CFOs evaluate the risk and returns of capital investment projects effectively, such as stadium and training compound upgrades or integrating residential or commercial real estate into a concept.

Thinking end-to-end

If clubs are looking to stage more events, managing the end-to-end lifecycle of an event, from planning to delivery, and assessing its economic impact accurately is paramount. Not only should clubs seek to deliver visitors an experience that is unique and memorable, but demonstrating the ability to maximise an event's long term legacy and sustainability will increase its brand equity.

All of which ties back to operational review, and recognising strengths and weaknesses internally. Without this critical identification process and analysis, football clubs will forgo profitable opportunities and lack the insights to implement effective, long-lasting, headline-breaking change.

Winning the league is not enough to beat the competition in the long term. Now more than ever, it's important that executives showcase that they are football finance savvy.

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39 Menchen, M (2016) *What will each club finally receive from La Liga in 2016/17?* Palco 23 [online] Available at: https://www.palco23.com/clubes/cuanto-recibira-finalmente-cada-club-por-tv.html

40 Mintel (2017) *Sport and the media* [online]. Available at: http://www.mintel.com

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