KPMG

Global Leisure Perspectives 2024

Examining the revival of the travel and leisure industry, offering insights, trends, and strategies for growth.

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Foreword

The travel and leisure sector is slowly bouncing back from the challenges of COVID-19, high inflation and economic uncertainty. Global investment in the sector is expected to rise 25 percent this year (year-on-year).[1] Hotels are enjoying record-high revenues per available room.[2] Global travel and tourism revenues are projected to rise by 8.3 percent in 2024 — to reach nearly US$1 trillion.

Yet many challenges persist. In most markets, interest rates remain high — impacting the cost of finance and leading to concerns about potential recessions. Consumer confidence, while up from the lows of 2022, remains below the long-term average.[3] Global economic growth is anemic compared to the decade prior to the pandemic.[4]

In this environment, travel and leisure organizations and investors are looking for opportunities to unlock value, drive growth and build customer relationships. And that is leading to a focus on four key areas: **inorganic growth, performance improvement, technology enablement and customer-centricity.**

KPMG's global network of professionals works with travel and leisure companies — and their investors, suppliers and ecosystem partners — in virtually every sector and geography around the world. We help them face some of their greatest challenges, plan and execute amazing transformations and unlock unprecedented value creation opportunities to help travel and leisure companies grow and thrive in challenging environments.

Given this depth of experience and insights available across our network, I asked my colleagues around the world to share their insights on these four key topics — **inorganic growth, performance improvement, technology enablement and customer-centricity**. I asked them to provide real examples of client experiences. I encouraged them to share challenges and opportunities. I challenged them to provide readers with actionable takeaways and next steps. And they delivered.

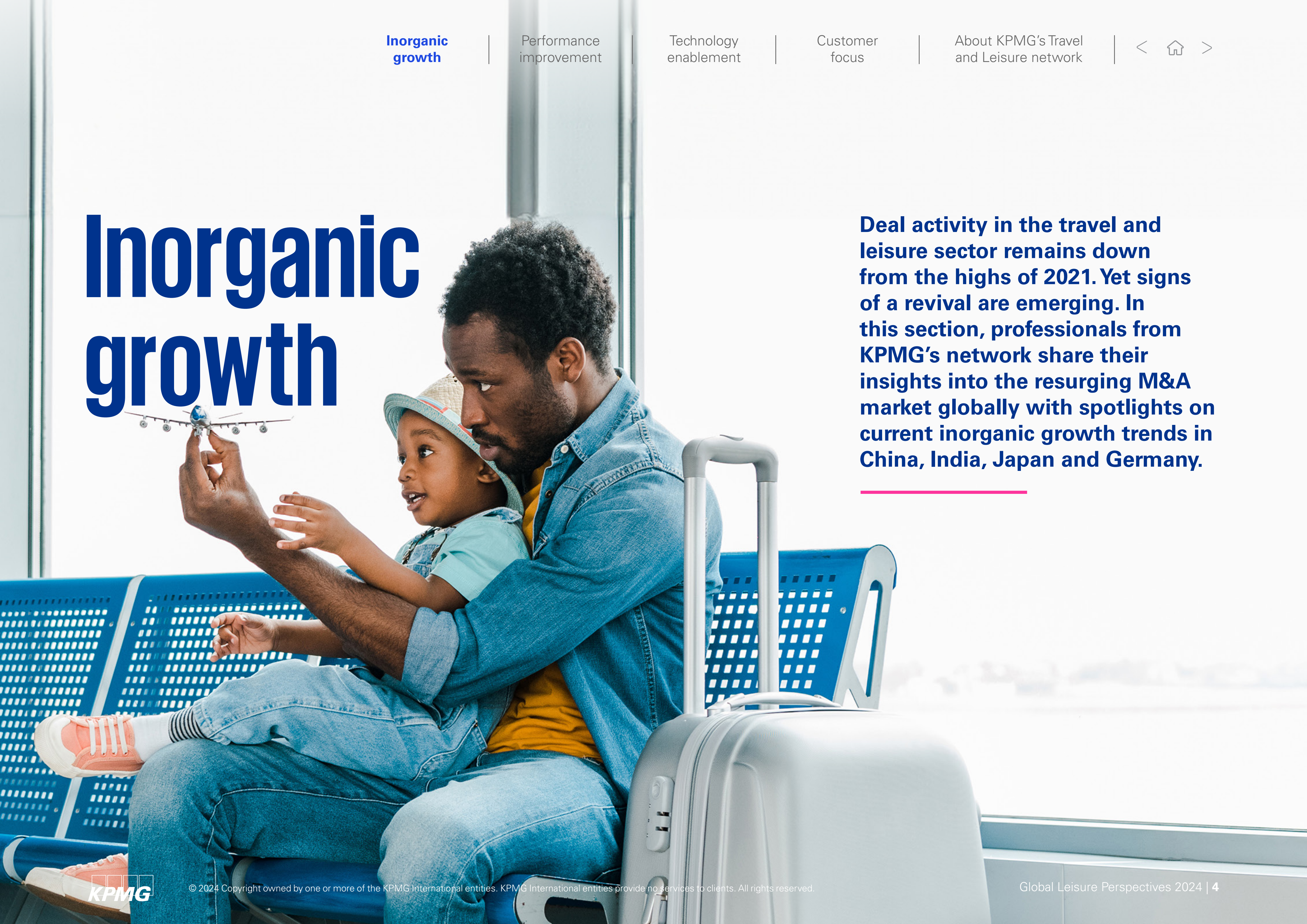
This publication is intended to help travel and leisure sector executives and decision-makers surface new ideas and explore existing opportunities to drive growth. In this report, you will find articles on a wide range of important topics — supported by actionable insights and examples to help you unlock growth in a challenging environment. I hope you find the stories inspiring yet practical.

On behalf of my colleagues around the world, I encourage you to contact any of the authors listed in this publication or your local KPMG firm to learn more about these topics or to find out how KPMG can help your organization.

Will Hawkley
Lead of Global Leisure & Hospitality
KPMG International
Partner, KPMG in the UK
will.hawkley@kpmg.co.uk

[1] Jones Lang LaSalle IP, "2024 Global Hotel Investment Outlook", January 23 2023
[2] Ibid.
[3] OECD, "Consumer confidence index (CCI)", January 2024
[4] OECD, "OCED Economic Outlook, Volume 2024 Issue 1", May 2024

Contents



Inorganic growth

Deal activity in the travel and leisure sector remains down from the highs of 2021. Yet signs of a revival are emerging. In this section, professionals from KPMG's network share their insights into the resurging M&A market globally with spotlights on current inorganic growth trends in China, India, Japan and Germany.

Macroeconomic outlook: Slowing inflation and lower interest rates to support consumers

*By **Meagan Schoenberger**, Senior Economist, KPMG in the US*

The past few years have seen consumers' finances hit by the dual challenge of high inflation and high interest rates. Savings accumulated during lockdowns provided a temporary buffer but now have all but run out. Meanwhile, eligibility criteria for consumer credit have tightened, adding to financial strain.

That has not stopped consumers from pursuing 'revenge travel'. The phenomenon has shown up in record Transportation Security Administration (TSA) throughput for airline passengers, as well as a sharp rebound in the air transportation industry since the pandemic.

While fares for domestic travel have abated in most countries, international airfares have begun to rise once again. In the US, for example, the import price index for airfares increased 9.0 percent[5] in the month of June for US travelers abroad, with prices to Europe, Asia and Latin America all contributing to the increase. Meanwhile, export prices for visitors to the US was up 10.6 percent in the same month.[6]

Global growth is forecast to expand 3.1 percent in 2024, the same pace as 2023. In 2025, growth is expected to slow to 2.9 percent before accelerating to 3.3 percent in 2026. The US has outperformed in the global economy but is expected to slow later this year. The Eurozone and UK are emerging from recessions, with a gradual recovery in incomes for households which should help consumer spending. Meanwhile, Asia is forecasted to perform well in 2024 and 2025 on improved growth in China and India. Growth in Latin America is expected to expand more in 2025 as inflation comes in closer to targets in the largest economies of the region such as Mexico, Brazil and Chile.

Meagan Schoenberger

Senior Economist
KPMG in the US
meaganmartin1@kpmg.com

[5] Bureau of Labor Statistics, "US Import and Expert Price Indexes", June 2024
[6] Bureau of Labor Statistics, "US Import and Expert Price Indexes", June 2024

Lower global inflation should help consumer spending

As inflation soared, the rising costs of necessities, like energy and food, forced consumers to cut back elsewhere. 'Delayables', such as new cars and household goods, as well as discretionary spending on social activities, like dining out, bore the brunt of rising costs. A slowdown in the economy from the pace of 2021 contributed to more scrutiny by consumers on purchases.

It is worth noting that inflation typically causes increased selectiveness from consumers, while recessions cause a more significant pullback in spending. From 1960 to 2019, average US consumer expenditures on airfares, recreation services and hotels and motels grew by 6.5 percent, 4.3 percent and 4.5 percent year-over-year, respectively.[7] Our analysis suggests those growth rates shrink to -0.41 percent, 3.5 percent and -1.26 percent during recessions. During periods of high inflation, consumers pull back on air transport and hotel purchases with expenditure rising just 4.0 percent and 3.2 percent respectively.[8]

Belt-tightening is confirmed by recent surveys. Around two-thirds of UK households say they have reduced spending on non-essentials, while one third are using savings to bridge the gap.[9] Meanwhile, in the US, 58 percent of consumers across nearly every income bracket say they are cutting back on non-essential spend due to rising grocery costs.[10]

The good news is that KPMG's most recent global outlook suggests that inflation is expected to fall from a 4.9 percent annual pace of growth in 2024 to 3.4 percent in 2025. That means consumers, who have been looking for a break, will have more disposable income available for discretionary spending like travel and recreation.

Central banks consider rate cuts

Central banks' response to high inflation is to raise interest rates, a move that swiftly impacts homeowners on variable-rate mortgage deals. To reduce the monthly burden, borrowers are seeking to extend their mortgage terms — 35-year loan deals are increasingly popular in the UK — or to switch temporarily to interest-only payments. The US consumer has been more protected from the pinch of higher rates due to the number of homeowners who locked in low rates but are still impacted by high rates on credit cards and other loans.

Central banks around the world have either already begun to cut rates or are considering rolling back restrictive policy as inflation approaches their respective targets and labor markets have softened.

Outlook for travel

Consumers are reluctant to forego their annual holidays. International arrivals in 2023 were up 20 to 30 percent on the previous year in some markets, with Asia Pacific growing especially strongly.

Staycations, popularized during the pandemic, continue to thrive, offering cost-friendly alternatives to international travel, while giving local economies a welcome boost.

Business travel is still struggling to make a comeback as employers seeks to cut their carbon footprints. Hybrid work gives more opportunities for virtual connections, rather than in-person.

[7] Bureau of Economic Analysis.

[8] KPMG Economics calculation from Bureau of Labor Statistics

[9] ONS website, ONS, Public opinions and social trends, Great Britain: household finances, 27 March to 7 April 2024. Accessed April 2024

[10] PYMNT website, "58% of consumers cut back on nonessentials due to rising grocery costs", Accessed March 2024

The European Central Bank, the Bank of England, the Bank of Canada, and several central banks in Latin America including the banks in Mexico, Chile, Peru and Brazil have already begun to cut interest rates. The Federal Reserve (Fed) cut by 50 basis points at their September meeting; our forecasts suggest they will cut by an additional 50 basis points by the end of 2024.

The exceptions are East Asian countries, which were more protected from the early rounds of inflation that the global economy experienced. Japan has begun to raise rates amid recent elevated inflation, but the central bank of China has been cutting on and off since 2019.

Geopolitical and economic headwinds continue to threaten growth

Geopolitical tensions add risks to global stability and economic growth, as well as volatility to markets. Over 40 percent of the global population will have gone to the polls in 2024 to elect new leaders, adding to the uncertainty.

Weather-related disasters could throw a wrench in travel plans this year. The National Oceanic and Atmospheric Administration forecasts a record-breaking hurricane season, which could curb travel in the Caribbean, US and Latin America, while heatwaves, fires and flooding keep consumers at home elsewhere.

Risks are to the downside in our forecasts. There are signs that the labor market could cool more than expected. The last mile on inflation is expected to be hard. Any signs of a resurgence in inflation could cause central banks to reverse course. These are not part of our base case but still pose risks to the global consumer.

Bottom Line

Amid many economic challenges, there are reasons to be optimistic: inflation is coming into alignment with central bank targets around the world. That should help households that have been burned by inflation and will allow central banks to begin to cut interest rates, providing a tailwind for growth. Most economies are expected to achieve a soft-ish landing from inflation, avoiding deep recessions. Those factors should support the leisure and hospitality industry, which has historically been more sensitive to downturns.

Over 40 %

of the global population will have gone to the polls in 2024 to elect new leaders, adding to the uncertainty.

For more information, visit the **KPMG Economics website**

M&A in a down market: What to watch

*By **Braden Mark**, Partner, Advisory, Financial Due Diligence, KPMG in the US*

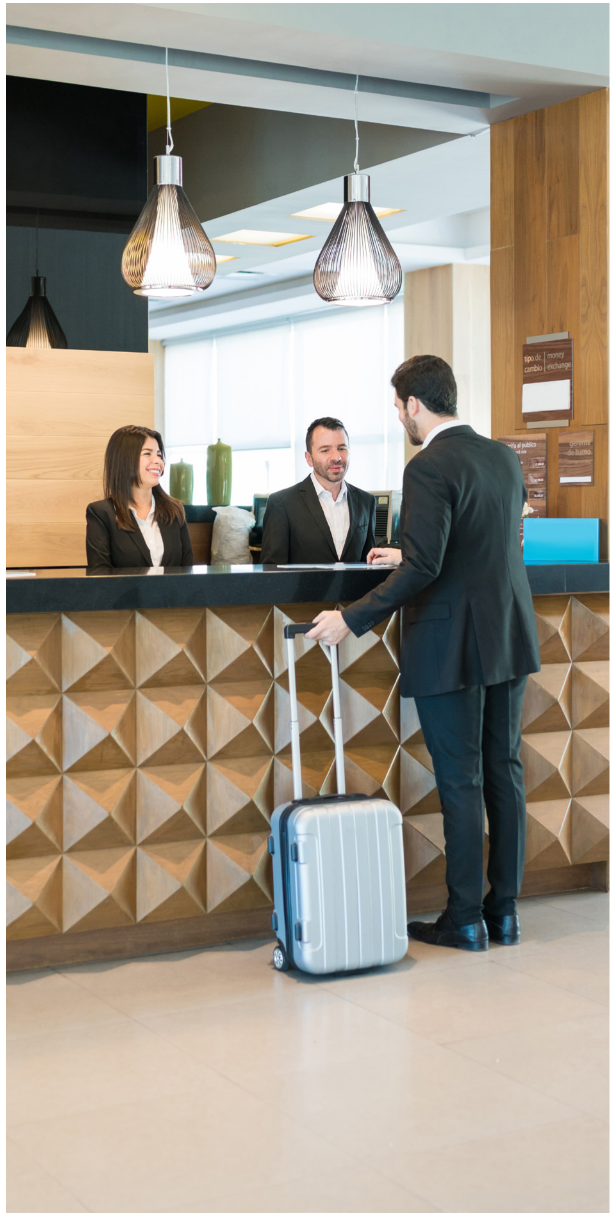
Braden Mark
Partner, Deal Advisory
KPMG in the US
bmark@kpmg.com

M&A activity in the travel, leisure and hospitality segment remains subdued with strategic investors and private equity holding back their dry powder. Yet some activity remains in the market. And all signs suggest an uptick in activity by the end of the year. Here's what to expect from the market going forward.

Facing the headwinds

The past 18 months have been particularly challenging for dealmakers in the travel, leisure and hospitality sector. Annual total deal value and volume in the sector hit historic lows in 2023.[11] The first half of 2024 has not changed the equation significantly, as the US Federal Reserve holds their monetary position and high financing costs remain.

In fact, our analysis of the first half of 2024 shows that — while deal volume is up 8.1 percent over the same period of 2023 — deal value has plummeted 45.4 percent in the absence of any large deals (just one deal of more than US$1 billion was announced in the half — Everi Holdings' merger with the Global Gaming and PlayDigital business of International Game Technology PLC (and subsequent announcement of Apollo's equity investment into the combined entity).[12]



[11] KPMG Insights, "Getting Creative: M&A trends in travel, leisure, and hospitality", 2023
[12] KPMG Insights, "A familiar position: H1' 24 M&A trends in travel, leisure, and hospitality", 2024

Our view suggests that the travel, leisure and hospitality sector will stay in a wait-and-see mode on large strategic transactions for now, until the financing environment improves and valuations begin to make sense again. Private equity, too, will wait out this challenging cycle, prepared to deploy a massive stockpile of capital once viable opportunities emerge.

While the Fed has been holding on rate cuts longer than many had once anticipated, there are growing signs that one or two cuts may still be possible in 2024. That would reduce the cost of financing and unlock deal capital. However, there are also signs that real wage growth in an active labor market will continue to provide strong tailwinds for the economy, keeping inflationary concerns alive.

The first half of 2024 has not changed the equation significantly, as the US Federal Reserve holds their monetary position and high financing costs remain.

As for the structural challenges facing the sector, we may see some positive developments this year. The tight labor conditions that drove wage inflation in 2023 are beginning to ease. Both the unemployment rate and the number of job openings in the US Leisure and Hospitality sector have been falling in the first half of 2024, showing that while workers still hold the upper hand in the labor tug of war, companies are inching back towards equilibrium. That said, there were still just under a million job openings in the US sector at the end of the first quarter.[13]

Flying on tailwinds

We believe we will begin to see greater momentum for M&A building into 2025. One potential tailwind for M&A in the hospitality sector could come from the growing need for maintenance and renovation capital across assets, which was oftentimes deferred during the challenging operating environment of 2020–2021. Rather than committing significant additional capital to existing assets, we believe some owners may choose to recycle that capital through the sale of existing properties to new ownership which would complete the renovation.

Another area that may drive M&A activity for the industry is the power of the leisure spender. Where companies once coveted business travelers, the slow path back to corporate spending has shifted the focus to pleasing consumers with a host of properties and services tailored to individual tastes. That is true, too, of companies offering outdoor recreation products and services. As people try to live active, healthy lifestyles, demand in this segment has increased dramatically.

Exploring other options

With M&A depressed across the sector, some companies have found creative new ways to improve their product offerings and expand customer reach through unique partnerships, such as InterContinental Hotel Group's partnership with Iberostar Hotels & Resorts where Iberostar retains ownership of its assets, while folding up to 70 all-inclusive resorts into the IHG's portfolio.[14]

[13] U.S. Bureau of Labor Statistics, Industry at a Glance: Leisure and Hospitality, Accessed July 10, 2024

[14] IHGPLC website, "IHG and Iberostar sign a strategic alliance for resort and all-inclusive hotels in the Caribbean, Americas, Southern Europe and North Africa", Accessed November 2022

Though not nearly as extensive or complex an alliance, MGM Resorts and Marriott International signed a long-term licensing agreement last year under which specific MGM properties are available through Marriott booking channels.[15] It follows similar arrangements IHG, the Venetian Hotel, Wyndham Resorts and Caesars Entertainment have pursued in recent years.

Three focus areas for travel, leisure and hospitality M&A leaders

1 Focus on the leisure spender:

Leisure consumption is powering the rebound in the travel segment. Leisure and hospitality sector companies should remain focused on aligning their product portfolios to attract consumer dollars and continue to strategically diversify through focused acquisitions.

2 Explore the strategic pivot:

Companies are finding new ways to expand their networks, expose their brand, and add value to their portfolios. M&A is one route. But the leaders are also exploring other creative ways to achieve this (such as loyalty-program sharing) without buying assets outright.

3 Watch the market:

While high financing costs have essentially choked off dealmaking, we expect interest rate rises are over for this cycle. The timing of US Fed rate reductions is uncertain, however it seems clear that any rate cutting could ignite a buying spree in a frustrated M&A market.

How KPMG can help

The KPMG network of Deal Advisory professionals help travel, leisure and hospitality clients overcome deal obstacles by taking a truly integrated approach to delivering value and leveraging its depth in the industry, data-supported and tools-led insights, and full M&A capabilities across the deal lifecycle. With a travel, leisure and hospitality specialization, our teams bring both transactional and operational experience, delivering rapid results and value creation.

[15] Marriot website, "It's Showtime: MGM Collection with Marriott Bonvoy Debuts in Grand Style", Accessed July 10 2024

Hainan: Innovating travel retail in China

*By **Nicole Zhang**, Office Senior Partner, Hainan; and*
***Willi Sun**, Partner, Head of Advisory Services, Consumer Markets, KPMG China*

From a single shop in the sleepy town of Sanya in 2011, the Province of Hainan in China has now turned into a multi-billion-dollar industry featuring some of the world's biggest duty-free stores and top hotels. Travel and retail brands around the world are taking notice.

'Travel retail' is a booming business focused, as the name suggests, on shopping by travelers (be they domestic or international). It is anchored by the duty-free channel — goods sold free of duty and tax, usually to international travelers. However, there are three so-called 'offshore duty-free' jurisdictions around the world where duty-free rights exist for domestic travelers too. One of those is the Hainan Free Trade Port in China.

Shaping the future of duty free

The tourism and retail sectors are thriving in the Hainan Free Trade Port. In 2023, total retail sales in Hainan increased by 10.7 percent, and local duty-free sales grew to CNY43.76 billion (US$6.2 billion), representing an increase of 25.4 percent. The number of shoppers jumped nearly 60 percent in the year, to 6.75 million and tourist turnover was as high as 188.6 percent, lifting total tourism revenue by nearly 72 percent year-on-year.[16]

With its integrated, open travel retail market and vibrant travel and shopping offerings, Hainan has become a leader in the development of the duty-free markets.

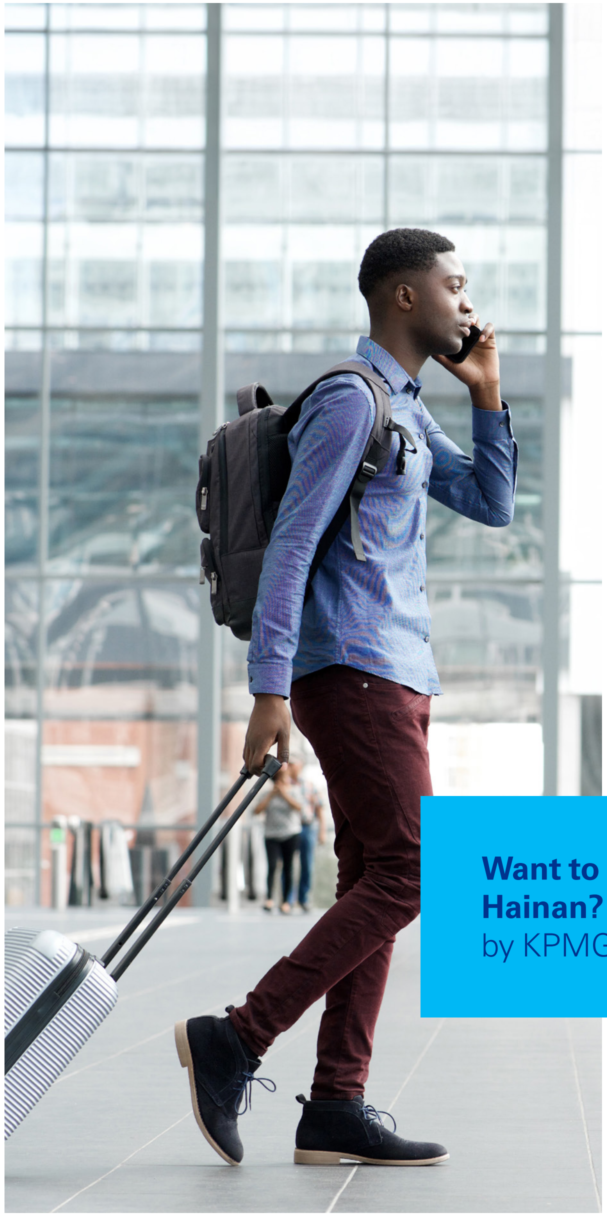
Nicole Zhang

Office Senior Partner
KPMG China
nicole.ll.zhang@kpmg.com

Willi Sun

Partner, Head of Advisory Services,
Consumer Markets
KPMG China
willi.sun@kpmg.com

[16] KPMG and Moodie Davitt Report, "2024 Hainan Travel Retail", April 2024



For example, in 2020, annual offshore duty-free shopping allowances were tripled to CNY100,000 (approximately US$14,000) and the number of duty-free categories was expanded from 38 to 45 to include cell phones and alcohol, for example). And in 2022, the new duty-free 'purchase and pick up' and 'guarantee and pick up' delivery methods were introduced, enhancing shopper convenience and driving consumption.[17]

A world-class retail destination

Hainan's promising retail future is not just about duty free, of course. Last year, Swire Properties and China Tourism Group jointly opened the burgeoning outstanding Sanya Yunjie Island duty & tax paid project in Haitang Bay, studded with some of the world's famous luxury brands bolstered by an extensive food and beverage offer. Swire Properties said its vision is to enhance the project's positioning as a premium international retail destination in Hainan.[18]

Or look to the nearby Yalong Bay, where DFS Group is opening what it calls a world-class, seven-star luxury retail and entertainment destination. Planned for opening in 2026, the project involves "unprecedented" investment into a 128,000 square meter site, attracting over 1,000 luxury brands including iconic maisons from the retailers' majority owner LVMH Group. DFS hopes the project will become Sanya's premier destination for luxury shopping, world-class accommodation, dining and entertainment, serving international and domestic tourists with innovative, renowned luxury brands and experiences.[19]

Want to learn more about travel retail and Hainan? Check out this recent whitepaper by KPMG China and the Moodie Davitt report.

Building a golden future

With the development of various retail business models, a competitive industry cluster is emerging in Hainan, which will attract more brands and investors to the island. It will also enhance the strength and impact of Hainan's retail industry and help build the island into an international tourism and consumption destination.

We believe that the planned establishment of an independent customs jurisdiction will make Hainan more attractive to tourists. And that Hainan's travel retail market will offer important support for China's consumer sector and play a significant role in serving the real economy and promoting industrial development.

Enterprises that move early to adopt a "duty-free + taxable operations" model can enhance their competitiveness and be better positioned to seize future opportunities and tackle challenges. To succeed in the coming years, stakeholders in Hainan should be able to think creatively and identify forward-looking insights while also summoning the courage to break new ground.

[17] Ibid.
[18] Jiemian News, "Taikoo bet on commercial real esate in Hainan", April 2024
[19] China Daily, "DFS to create Sanya's first world-class seven-star luxury retail and leisure destination", September 9, 2024

Flying high: India's travel and leisure sector reaches new heights

*By **Chintan Patel**, Partner, Deal Advisory & Head — Building, Construction and Real Estate; and **Aman Mehta**, Vice President, Real Estate Advisory, KPMG India*

While global economies are facing headwinds, India's travel and leisure sector stands out as a bright light in the global travel narrative, promising continued growth. Fueled by pent-up demand, growing domestic travel and gradual international border re-openings, the Indian market has demonstrated remarkable adaptability in the post-Covid era.

In part, this is due to strong initiatives by the Government of India whose long-term vision is to position the country as the foremost travel destination globally by 2047.[20] The 'Visit India Year' initiative, for example, aims to promote inbound travel and enhance India's appeal on the global stage. Programs such as "Dekho Apna Desh" ("Travel across one's country") and "Ude Desh ka Aam Nagarik" ("The domestic traveler takes flight") are focused on bolstering aviation infrastructure to the hinterland. Other initiatives, such as the Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD) scheme, are aimed at stimulating growth in niche/thematic segments.

At the same time, business travel across India has grown on the back of heightened business and manufacturing activity across Tier 2 and 3 cities, which is also driving demand for organized/branded hotel supply across these cities. Other factors catalyzing exceptional growth in the industry include rising demand from the MICE segment, the booming wedding market and sports-related tourism.

Hitting historic highs

With strong supporting economic tailwinds, key performance indicators for the sector are at 10-year highs. National occupancy reached over 65 percent and ARR hit US$82, contributing to a total RevPAR of US$54 in 2023.[21] Supply is booming with approximately 12,500 hotel openings (again, a record), with 80 percent of the new supply concentrated in the Tier 2 and 3 cities and led by domestic brands. More than half of the new supply was in the midscale category, followed by upscale.[22]

Chintan Patel
Partner, Deal Advisory & Head — Building, Construction and Real Estate
KPMG in India
chintanpatel@kpmg.com

Aman Mehta
Vice President, Real Estate Advisory
KPMG in India
amanmehta@kpmg.com

[20] Invest India website, Tourism & Hospitality: India ranks 6th according to WTTC in terms of Travel & Tourism total contribution to GDP in 2022. Accessed July 2024

[21] Hotelivate, "The 2023 Indian Hospitality Trends & Opportunities Report, Oct 2023

[22] HVS Anarock, "India Hospitality Industry Overview 2023", 2023

All signs suggest continued robust growth going forward. India's evolving socio-economic fabric is expected to change significantly over the next decade, driving increasing disposable income and fueling consumption (expected to double by 2031).[23] As such, the travel and tourism sector is set to experience strong growth of approximately 8 percent [24] over the next decade on the back of growing consumption.

A booming M&A landscape

Favorable market dynamics have created strong appetite for deals and investments in India's hospitality space. In 2023, deal value in the hotel segment shot up to US$382 million across 24 hotel deals — well above the five-year average of around US$230 million.[25] Lists some of the biggest deals in the sector over the past few years.[26]

2023 also saw the successful Initial Public Offering (IPO) of three hotel companies on the public markets.[27] With an upbeat outlook, numerous hotel owners and operators are now exploring this route as a way to secure funds for expansion, reduce debt, or offer an exit to current investors. Filings suggest

India's Big Deals

Investor	Investee	Deal value (USD Mn)*	Year of deal
Chalet Hotels	Ayushi and Poonam Estates	38	2024
Anirudh Agro Farms	Viceroy Hotels	18	2023
Chalet Hotels	Dukes Retreat	10	2023
Nimbus India	World Resorts	7	2023
Lemon Tree Hotels	Fleur Hotels	6	2023
Kotak Realty Fund	The Lalit's Bharat Hotels	132	2023
Jujhar Group	Fairfield by Marriott Hotel	-	2022
IQI India	Signum Hotels & Resorts	150	2021
Chalet Hotels	Belaire Hotels	35	2020
Oberoi Realty	Sahana Group	125	2020

**INR to USD exchange rate is considered at INR 83*

Company name	Market cap (USD bn)
Juniper Hotels Limited	1.20
The Park Hotels	0.49
SAMHI Hotels Limited	0.50

Source: CBRE Report, "The Indian Hospitality Sector On A Comeback Trail", 2023

[23] The Economic Times website, "India's consumer market likely to double by 2031: FM Nirmala Sitharaman", Access May 2024

[24] WTTC website, "India's Travel & Tourism Sector Shows Strong Recovery with Domestic Tourism Leading the Way", Accessed June 2024

[25] HVS Anarock, "India Hospitality Industry Overview 2023", 2023

[26] CBRE Report, "The Indian Hospitality Sector On A Comeback Trail", 2023

[27] HVS Anarock, "India Hospitality Industry Overview 2023", 2023

that ITC is actively working on listing their hotel division independently. Other established groups such as Leela Hotels and Prestige Group are also considering the IPO path for their hospitality ventures.[28]

Operators bullish on expansion

With demand surging and confidence at record highs, we are seeing operators — international and domestic — enthusiastically pursuing expansion plans. The vast majority are structured as third-party management agreements, with some following a franchise model.

Notably, 2023 marked the most significant increase in terms of 'keys transacted' since 2019. Much of the focus has been on the Tier 2, 3 and 4 cities as well as the mid-scale and upper-upscale hotel segments, with more than 80 percent of the keys transacted in these categories in 2023.[29]

Future outlook

India's travel and tourism industry stands at the threshold of remarkable growth, fueled by robust economic fundamentals and bolstered infrastructure. With disposable income increasing across the population, the government's visionary initiatives aim to position India as a premier global travel destination by 2047. This ambitious goal emphasizes the immense potential within the sector.

India's hospitality industry is experiencing a historic surge, with high occupancy rates and record-breaking average room revenues. As India continues to invest in infrastructure, promote niche markets and embrace digital transformation, wellness, and sustainability, the outlook for the hospitality sector remains exceptionally optimistic.

How KPMG can help

The Deal Advisory team in India comprises over 90 partners and directors and more than 700 professionals who advise a large client base, which includes leading corporates, private equity players and venture capital funds. We closely work with our clients to preserve and create value across the deal lifecycle.

We bring together our widespread portfolio of deal-related services right from deal strategy and corporate finance, transaction services, valuations, special situations group, tax structuring advice and ultimately to smooth integration and separation services post deal.

[28] HVS Anarock, "India Hospitality Industry Overview 2023", 2023
[29] HVS Anarock, "India Hospitality Industry Overview 2023", 2023

Japan's comeback story

*By **Ayako Klepal**, Senior Manager, Hospitality & Tourism, KPMG in Japan*

A leisure revival is underway in Japan. With inbound tourism surpassing pre-pandemic levels, hotel investors anticipate strong performance in 2024. And that's despite significant rises in capital and operating expenditure.

Japan's recovery from the lockdowns of the pandemic has been remarkable. In 2021, foreign lodgers represented just 1.3 percent of demand; in 2023, that number jumped to 19.1 percent, just shy of the 20.2 percent experienced in 2019.[30] Early data from the first half of 2024 suggests the number of foreign lodgers has risen another 6 percent year-over-year.[31]

On top of increased visitor numbers in 2023, higher hotel rates have pushed up international traveler spend, surpassing the government's targeted JP¥5 trillion (US$32 billion) per year.[32]

To capitalize on growth, the Government of Japan wants to add 50 new luxury hotels across the country and improve infrastructure, making it easier for visitors to enjoy authentic local experiences in sought-after cities and regional destinations. Fiscal incentives are being explored, as well as loan programs and debt finance through the Development Bank of Japan.[33]

Case in point: hotel transformation

KPMG in Japan helped a mid-scale limited-service hotel transform into a high-end hotel by way of a partnership with an overseas brand.

As well as support with rebranding, KPMG in Japan analyzed the commercial feasibility of the partnership, negotiated the contract and helped to obtain debt finance.

Today, the hotel concept is distinct from other hotels in the market and is attracting its targeted visitor segment.

Ayako Klepal
Senior Manager, Hospitality & Tourism
KPMG in Japan
ayako.klepal@jp.kpmg.com

[30] Japan Tourism Agency, *Visitor Arrivals to Japan and Japanese Overseas Travelers,* Statistical Information, 22 March 2024

[31] Ibid.

[32] Press Release, Japan Tourism Agency, *Survey on consumption trends of foreign visitors to Japan,* 17 January 2024

[33] Nikkei, *Chief Cabinet Secretary to use fiscal investment and loans to build 50 new world-class hotels,* 7 December 2019

Rebrand and revamp

With supply chain and capacity restrictions pushing construction costs higher,[34] we are seeing investors shift their focus to renovating and rebranding existing hotel assets to accommodate international visitors' preferences.

Accor, for instance, announced a strategic venture with JHRA, which will see 23 properties in its Daiwa Resorts portfolio rebranded as Grand Mercure and Mercure hotels, offering uniquely local experiences.[35]

Meanwhile, in Osaka, IHG Hotels & Resorts added the RIHGA Royal Hotel Osaka and will refurbish the hotel to relaunch as the first IHG Vignette Collection property in Japan.[36]

Revamping, rather than building from scratch, helps owners to avoid some of the impact of rising construction and labor costs. At the same time, greater operational efficiency and higher Average Daily Rates (ADRs), made possible by appealing to a wealthier market segment, help drive up returns.

KPMG in Japan is working with hotel owners to create luxury international offerings in Kyoto and other key locations for global brands that include IHG Six Senses and Banyan Tree brands. Given the uniqueness of Japan's market, international brands are looking for support assessing and working in the local market — from feasibility studies and Commercial Due Diligence through to operator selection and hotel asset management support, we are helping global investors tap into Japan's growth as a leisure destination.

How domestic hotels can compete

While domestic hotels may have the advantage in terms of understanding and responding to local needs and expectations, competition from international operators with large and loyal customer bases, global distribution networks and wide reach will be significant — particularly for those domestic hotels that split their ownership and operations to protect assets during the pandemic.

At the same time, the guest profile is changing, creating new opportunities for domestic players. Before the pandemic, 80 percent of lodging demand in Japan came from domestic travelers.[37] But with revenues from international guests expected to increase due to longer stays and higher spend thresholds, domestic hotels must find ways to up their appeal to this new guest demographic.

Case in point: growth strategy

Despite natural resources, like hot springs, Japan has struggled to compete with Europe and the US in the wellness tourism market.

KPMG in Japan helped a client enter the space by surveying and tracking trends in the domestic resort market and the global wellness tourism market and converting those insights into a quantified list of assessed risks and opportunities.

[34] This Week's Indicators No 1299, Cabinet Office, *Rising material prices and trends in housing starts,* 22 February 2023

[35] Daily Lodging Report, *Accor Welcomes 23 Mercure and Grand Mercure Hotels in Japan,* 8 November 2023

[36] IHGPLC website, IHG Hotels & Resorts plans to bring Vignette Collection brand to Japan with landmark 1000-room Osaka hotel agreement, Accessed Jan 2023

[37] Statistical Information, Japan Tourism Agency, *Visitor Arrivals to Japan and Japanese Overseas Travelers,* 22 March 2024

Case in point: hotel restructuring

To help a client eliminate inefficient and duplicated functions when integrating two subsidiary hotel organizations into its group, KPMG in Japan analyzed, developed and implemented an organizational structure fit for future business expansion.

Beyond providing services and features that would appeal to international travelers, domestic hotels may also want to consider how they can use their data to drive performance improvement through, for example, optimized pricing and channel mixes.

Investors have spotted the opportunity for Japanese hotel companies to showcase their uniqueness from global brands and attract international operators and overseas visitors. We expect to see more domestic companies rebrand as luxury hotels or undergo redevelopment and transformation to offer authentic local and cultural experiences.

Healthy competition is possible across all areas of the travel and leisure sector. But the strongest and most sustainable growth will go to those that stand out from the rest.

Three risks and three opportunities facing Japan's hotel market

Risk:

- **Future oversupply:** While lodging demand is increasing rapidly, so is supply.
- **Labor force shortages:** Government's effort to increase wages is raising payrolls.
- **Development delays:** Construction costs have increased and timelines have been delayed.

Opportunities:

- **International travelers:** Foreign lodgers are staying more and spending more.
- **Sustainable tourism:** Brands are exploring local communities with strong sustainability stories.
- **Cultural experiences:** Cities like Tokyo will appeal to wealthy travelers seeking culture.

How KPMG can help

KPMG in Japan provides a wide range of valuable services to domestic and international hotel groups, operators, investors and services providers. From strategy development and feasibility studies through to operator selection and sell side advisory services, our team combines deep local experience with proven global practices and tools to help players drive sustainable growth in Japan's hotel and leisure sectors.

We've worked with many of the top domestic and international brands. Contact us today to find out how we can help your organization.

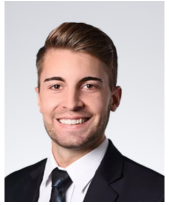
Cautious optimism in Germany's hotel market

*By **Fabrice Adler**, Manager, Advisory; and **Carlotta Gehling**, Senior Associate, KPMG in Germany*

Is Germany's hotel market set for a rebound? 2023 was a challenging year in terms of deal activity. Deal volumes slumped, while values fell to just US$1.4 billion — the lowest level since 2012 and around 60 percent below the 10-year average.[38]

Yet there are signs that investor activity is picking up. Towards the end of 2023, a number of bigger deals and agreements were announced.

- IHG Hotels & Resorts and NOVUM Hospitality signed a deal to bring more than 108 open hotels and 11 hotels under development into the IHG portfolio, doubling IHG's presence in Germany.[39]
- A&O Hotels & Hostels was sold by TPG to joint-venture private-equity buyers StepStone and Proprium, including 39 hotel operations (25 in Germany) and 13 real estate properties.[40]
- RIMC took over three hotels in Quellness & Golf Resort Bad Griesbach, where it will serve as both tenant and operator.[41]
- Singaporean sovereign wealth funds GIC and Caleus sold the Hotel de Rome in Berlin to Italian investor Gruppo Statuto for around €145 million (US$157 million), the equivalent of €1 million per room.[42]



Fabrice Adler

Manager, Advisory
KPMG in Germany
fabriceadler@kpmg.com

Carlotta Gehling

Senior Associate, Deal Advisory
KPMG in Germany
cgehling@kpmg.com

[38] CBRE, January 2024

[39] IHGPLC website, "IHG Hotels & Resorts and NOVUM Hospitality sign agreement that doubles IHG's hotel presence in Germany, launches Holiday Inn – the niu collaboration, and debuts Garner and Candlewood Suites brands", Accessed April 2024

[40] Carlsquare website, "TPG Real Estate acquires a majority stake in A&O Hotels and Hostels", Accessed 2024

[41] RIMC website, "RIMC acquires three hotels in Badgriesbach", Accessed February 2024

[42] Cushman & Wakefield, April 2024

According to recent data from Cushman & Wakefield, transaction volume jumped another 30 percent in the first quarter of 2024.[43] At the same time, key statistics are improving. RevPAR (revenue per available room) has already surpassed 2019 levels and occupancy rates are rising, particularly following the UEFA European Football Championship which was held in Germany this year.

Now, with interest rates starting to stabilize, signaling a more balanced pricing dynamic between buyers and sellers, a modest uptick in transaction volumes could be on the horizon after years of decline.

Three risks and three opportunities facing Japan's hotel market

1. **Recovering KPIs:** The recovery in travel demand and hotel profitability should grow stronger, driving improvements in key hotel performance metrics like occupancy rates, average daily rates and RevPAR.
2. **Value-add and vacant-possession assets:** 2023 was dominated by deals focused on value-add and vacant-possession properties outside of prime locations.
3. **Industry consolidation:** The operator landscape is ripe for consolidation, with the sale of Travelcharme Hotels & Resorts and other deals in the pipeline.[44]

[43] Cushman & Wakefield website, Slow first quarter but initial signs of recovery in the German hotel real estate investment market", Accessed April 2024

[44] Travel Charme website, "Travel Charme Hotels & Resorts wird Teil von DSR Hotel Holding", Accessed February 2024

Boom times for branded residences

*By **Dorothee Grobosch**, Director; and **Fabrice Adler**, Manager, Advisory, KPMG in Germany*

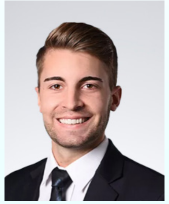
Branded residences are enjoying massive growth and outsized premiums — creating exciting opportunities for hotel brands to diversify their revenue streams by leveraging their existing strengths and assets. With competition heating up, this article explains why branded residences are so hot and what to look for when investing in a branded residence asset.

A hot, not-so-new idea

Backed by renowned global brands and located in prime locations, branded residences offer guests and owners exceptional amenities and services such as concierge, fitness centres, restaurants, bars, housekeeping and wellness that set them apart in the luxury market.

Branded residences are not a new concept — one of the most famous, the Carlysle in New York City, has been operating since 1930 (JFK owned an apartment there). But the idea got new life in the 1980s when Four Seasons opened its first branded residence in Boston. By the mid-2000s, other leading hotel players like Fairmont, Six Senses, Viceroy and Mandarin Oriental were offering their own branded residences. More recently, a number of luxury non-hotel brands — like fashion brand Armani and luxury car maker Bentley — have entered the market with their own luxury branded residences.[45]

Dorothee Grobosch
Director, Deal Advisory
KPMG in Germany
dgrobosch@kpmg.com



Fabrice Adler
Manager, Advisory
KPMG in Germany
fabriceadler@kpmg.com

[45] JLL, Branded Residences Report 2019

Rapidly gaining momentum

Growth in the segment has been impressive, with the number of units increasing by 150 percent over the past decade alone.[46] Four Seasons and The Address currently own the highest number of completed schemes across Europe, the Middle East and Africa, each with over ten operational schemes. The most successful non-hotel brands are YOO, a provider of extraordinary living spaces, and Elie Saab, a high-fashion brand.[47]

The idea is taking off right around the world. New schemes are underway or in operation in the US, United Arab Emirates and Thailand. Projects are in the pipeline in the Mediterranean region and Central America, in gateway cities like Madrid, Barcelona and Cairo, as well as at ski destinations and tourist attractions.

In fact, according to Savills, upper-upscale and upscale brands are poised to increase their market share by between 50 and 70 percent by 2030, with notable growth in sustainable resort and coastal locations.

What's driving growth?

For operators, branded residences offer business diversification opportunities. New branded residences can provide a healthy boost to profits while upgrading existing assets into branded residences can help bring new life to an asset or property.

And for individual buyers, branded residences come with the assurances of service and quality guarantees. Branded residences often outperform non-branded residences over the long term due to their strong brand association and consistent quality. And they tend to provide significant rental premiums versus non-branded residences.

Perhaps the greatest uplift is enjoyed by developers, who are seeing price premiums of around 20 to 70 percent, depending on their location, brand and residence type.[48] Price premiums range from around 25 percent in global cities, where there is competition from non-branded stock offering similar quality and amenities, to 50 percent in emerging cities.[49] Branded residences in resort locations, commonly used as second homes, attract premiums just over 30 percent.

More growth to come

Branded residences promise to remain a source of strong growth into the future, with major hotel groups gearing up to complete a further 600 schemes by 2030, according to analysis conducted by Savills.

We expect to see significant dealmaking activity going forward as a more diverse range of brands compete for broader geographical reach in this burgeoning market. As the market changes, operators of branded residences may need to adapt their strategies by adjusting their offering, reshaping their portfolios of assets or updating their pricing to remain competitive.

[46] Savills UK, "Spotlight: Branded residences 2023", Accessed 2023
[47] Savills UK, "Spotlight: Branded residences 2023", Accessed 2023
[48] *Hospitality Investor.*, State of play: Branded residences overview, February 22, 2024
[49] Ibid.

Looking to get into the branded residence space?

1. **Is it the right opportunity?** Research and compare different branded residence projects in your desired locations and price ranges. Look at factors like the brand reputation, amenities, services, and potential for capital appreciation.
2. **Will it deliver the right returns?** Consult with real estate professionals who specialize in luxury properties to get expert advice on investing in branded residences. Discuss the potential risks, returns, and how it fits into your overall investment strategy.
3. **Does it align with your brand?** If possible, visit or stay at properties associated with the branded residence you are considering to experience the lifestyle and quality firsthand. This can help you make a more informed decision.
4. **Does it appeal to your core audiences?** Consider your customers' lifestyle preferences and how they fit with the branded residences on offer. Evaluate the importance of brand name, services, amenities, location (urban vs resort) and investment potential.
5. **Will it remain attractive to investors?** Stay updated on the evolving branded residence market, as new brands continue to enter and the sector expands geographically. Be aware of emerging trends in design, amenities and services that may impact your decision.

How KPMG can help

The KPMG network of Deal Advisory professionals combines deep experience in buy-side and sell-side dealmaking with extensive insight into the travel and leisure sector to deliver value-creating opportunities for clients. From Financial, Tax and Commercial Due Diligence through to the benchmarking of properties, cost structure analysis and value creation services, our network is poised to help hotel leaders create and execute their branded residence strategies.

Performance improvement

In an uncertain economic environment, travel and leisure companies are looking for ways to improve performance across every facet of the business. In this section, professionals from the KPMG network share their experience helping travel and leisure companies deal with complex problems — like CSRD compliance — more efficiently and effectively.

Maximizing profitability: Value-based pricing in hospitality

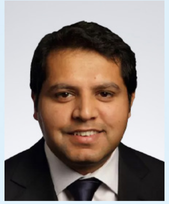
*By **Shashank Dewan** and **Tanveer Gill**, Pricing Strategy, KPMG in the UK*

Are you leaving money on the table? If there is a gap between what your customers are willing to pay and what you are charging, you may be selling yourself short. And a shift to value-based pricing may be exactly what you need to increase your revenues and profitability without increasing your costs.

Pricing pressures prevail

Pricing travel and leisure products in a down economy isn't easy. Customers have become increasingly cost conscious, with a recent KPMG survey revealing that 58 percent of consumers plan to cut non-essential expenditures this year.[50] That is having a direct impact on the hospitality sector, in particular. For example, research by Euromonitor shows a shift away from fine dining at full-service restaurants across Europe, with customers instead preferring to treat themselves to more affordable luxuries such as coffee and cake at a coffee shop, or a quick drink at a pub after dinner.[51]

At the same time, the impact of rising input costs (particularly food), labor shortages and supply challenges have squeezed sector margins and pushed some businesses into financial distress. Many failed. In the UK alone, more than 6,000 hospitality venues were forced to close last year.[52] In many cases, the problem was an inability to align cost, price and value. KPMG's Financial Performance Index, a measure of the financial health of key sectors, shows travel and hospitality performance continues to weaken.[53]



Shashank Dewan
Partner, Pricing Strategy
KPMG in the UK
shashank.dewan@kpmg.co.uk

Tanveer Gill
Associate Director, Pricing Strategy
KPMG in the UK
tanveer.gill@kpmg.co.uk

[50] KPMG Insights, "41 percent of people feeling less financially secure heading" December 2023
[51] EuroMonitor Consumer Foodservice in the United Kingdom
[52] Harpers Wine & Spirit Trade News, "6000 hospitality venue closed in 2023", Jan 2024
[53] KPMG Insights, "KPMG Financial Performance Index", July 2024

What's it worth to you?

Many travel and leisure organizations see value-based pricing as a way to increase profitability without increasing costs. Simply put, value-based pricing sets prices based on consumers' perceived value of a product or service. It's already widely used in areas like air travel where the price of a ticket is based more on factors such as route demand, time of day, class of services and so on, than on the actual cost of operating a plane from Point A to Point B.

Now, players in other travel and leisure sectors are adopting this pricing approach. Rather than applying ad hoc price adjustments that factor in internal costs or competitor pricing, these businesses are taking a more dynamic approach, aligned to customers' perceptions of value. And they are seeing significant uplift in revenues and profits.

For example, KPMG in the UK recently helped a large European restaurant chain apply value-based pricing to their menus, resulting in a 6 percent increase in overall profitability. We've seen many companies achieve increases of 10 percent or more using value-based pricing.

Five focus areas for value-based pricing excellence

Value-based pricing may seem complicated and opaque. But with the right foundations and approach, it can be a fairly easy and surprisingly scientific approach to pricing. Based on our experience, there are five key areas where hospitality and leisure companies should be focusing.

1. **Data and analytics:** Transaction, customer, product and competitor data can be used to analyze customer behaviors, purchase patterns and pricing preferences. This can provide deeper insights into your customers' buying behavior and help you identify where your current pricing approach is driving loyalty, repeat purchase and upsells and cross sells.
2. **Customer preferences:** Use your customer insight to identify products that are price sensitive and those with headroom for price adjustments. This will provide a clear view of priority factors impacting consumers' choice of product (based on occasion, type of venue, customer reviews, etc.) and willingness-to-pay for different items and services.
3. **Network segmentation:** Group your network locations based on customer preferences and willingness-to-pay. This can help you define key design principles for your value-based pricing strategy, such as selecting which parts of the network require premium vs. value pricing and which products could be used to drive margin vs. footfall.
4. **Pricing strategy:** Further understand product preferences and price sensitivity will aid in establishing a well-defined price hierarchy and inform product or service substitution choices for customers. Can will enable you to create a suite of options that are better aligned to consumers' choices and prices which can better suit their willingness-to-pay
5. **Capability:** Pricing is not a decision you make once; it needs to be reviewed and refreshed on an on-going basis. That will require hospitality and leisure companies to build their internal capabilities and adopt new technologies such as AI and Machine Learning, which can help to continuously review price performance and even intervene as required.

Case in point: Transforming the pricing strategy at large UK hospitality chain

While this major UK hospitality chain was still popular with customers, the company was facing shrinking margins due to misalignment between its costs, prices and customer preferences. Inflationary pressures and changing customer preferences after the pandemic had impacted pricing. And, with more than 500 outlets, their approach of benchmarking against local competitors was creating inconsistent pricing across the chain.

The company called on KPMG in the UK to help them develop and implement a more streamlined value-based pricing model. Working alongside the client, we:

- Segmented outlets to better understand local customer preferences
- Conducted a large-scale consumer study to inform pricing strategies
- Introduced a customer-centric pricing model
- Aligned pricing with customer preferences to maximize value
- Developed a pricing tool underpinned with machine learning for real-time adjustments based on market data, and
- Trained the pricing team on pricing tools and governance.

By transitioning from a competitor-based approach to one informed by customer preferences, the hospitality chain's margins improved by 6 percent within the year, with benefits flowing into the following years.

Build revenues and resilience

Adopting value-based pricing can be a great way to enhance revenues and profitability without adding significant new cost. Done systemically and continuously, it can also help travel and leisure organizations view early signals of preference changes, demand and price elasticity — thereby enabling them to focus on the products and services that deliver greater long-term value to the organization, or to take advantage of opportunities as they arise.

Creating alignment between value and price can be critical to driving growth in the current economic environment. Otherwise, you are just leaving money on the table.

How KPMG can help

The KPMG network of Pricing professionals helps travel and leisure businesses build and incorporate value-based pricing strategies to optimise pricing levers by enhancing strategy, policy and capability. Our team of retail and hospitality specialists combine their deep sector knowledge with innovative analytics to create technology solutions designed to deliver fast outcomes and lasting value.

Fit for the future: Simplify, modernize and optimize

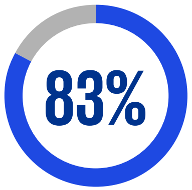
*By **William J. Rucker III**, Director, Strategy; **Daniel Fischer**, Principal, Strategy; and **Sarah Park**, Director, Strategy, KPMG in the US*

Businesses in the travel, leisure and hospitality sector need to do more with less. On the one hand, they are under pressure to grow, enter new markets and innovate. Yet, on the other, they are also dealing with rising costs and inflation.

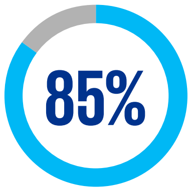
In this environment, crude cost-cutting measures can often put growth objectives at risk. Rather than simply cutting costs, therefore, the leading travel and leisure companies are focusing on value creation and continuous cost improvement, putting themselves in a position where they can continue to pursue their business objectives but with a balanced focus on growth *and* cost management.

Illustration Reference — KPMG "Top 10 Regulatory Challenges of 2023" reiterate how Financial Services and Travel, Leisure, and Hospitality continue to raise the bar on expectations of covered entities and institutions.

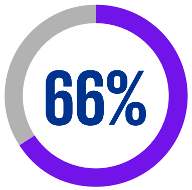
The market is focused on reducing cost



Firms refocusing their cost optimization efforts



Firms accelerating their cost optimization efforts



Firms looking to reduce their cost basis by more than in 3 years

For these organizations, the key is in creating the right processes and models to operate leanly, but from a more robust base. They are looking for solutions that scale with them, allowing costs to grow in step with growth (rather than ahead of it). And that is leading many travel and leisure organizations to explore opportunities to simplify, modernize and optimize their operating models.

William J. Rucker III
Director, Strategy
KPMG in the US
wrucker@kpmg.com

Daniel Fischer
Principal, Strategy
KPMG in the US
danielfischer@kpmg.com

Sarah Park
Director, Strategy
KPMG in the US
sarahpark1@kpmg.com

Simplify

As organizations grow and acquire new capabilities and businesses, they often become bogged down by overly complex operating models and repetitive, low-value processes that were knit together over time. Simplification focuses on rationalizing the organizational structure, roles and responsibilities to reduce redundancy and enhance visibility across the organization, leveraging automation and self-service options to reduce manual intervention and drive efficiency.

In many cases, the objective and shape of simplification will depend on the business' ambition. KPMG in the US recently worked with one travel and leisure company to help them simplify their operating model by aligning their functions to the way they reported their financial earnings. We identified which functions were dedicated to specific business units and which were delivering value more broadly. Then we created an operating model that simplified their organization, distributed costs more efficiently across business units and freed up employees to focus on more strategic activities.

Modernize

Modernization doesn't just deliver operating cost benefits, it also helps build a more agile foundation for future growth. One particular area of focus for modernization in the travel and leisure sector is data. We are seeing many organizations move to retire outdated data models and infrastructure that has become costly to operate and maintain. We are also helping companies migrate their systems and data into the cloud in order to reduce their hardware and infrastructure costs. Cloud-based environments also enable greater use of automation and AI, thereby helping reduce time and effort costs.

Yet, at the same time, these initiatives are creating runway for growth. Modern, integrated data models and platforms allow data to flow freely across the organization, unlocking collaboration and insights. Cloud enablement allows organizations to scale resources up and down with demand, providing elasticity for future growth. And automation enables employees to focus on more innovative outcomes

Optimize

As your business evolves and market dynamics change, workforce optimization can often be an effective way for organizations to achieve cost efficiencies.

It begins with determining the organization's own strategic goals, growth aspirations and scalability, and then benchmarking performance against industry peers. By transitioning the workforce to a more efficient and lower-cost staffing model, and by adopting flexible resourcing to meet fluctuations in demand, companies can realize valuable cost efficiencies while still supporting growth.

For example, KPMG in the US recently helped a sector client integrate outsourcing solutions into their customer service model. We segmented their common customer service issues by complexity, cost to serve and cost to resolve. We analyzed different outsourcing models and combinations. Then we set them up with a model that routes easy-to-resolve issues to an outsourced center with lower labor costs, while more complex issues are handled in-house.

Five ways to get started

KPMG Travel and Leisure professionals have helped many of the world's leading organizations and brands to simplify, modernize and optimize their operating models. This experience reveals five key areas for focus:

1. Eliminate the repetitive stuff

Evaluate your operational processes and identify repetitive tasks that can be automated. This could include invoice/ expense approvals, customer service interactions, or procurement management processes. Automation can reduce risk, increase efficiency and let people focus on more value-added tasks.

2. Simplify the organizational structure

Take a critical look at your company's organizational structure, roles and responsibilities. Identify areas where there may be overlaps, inefficiencies or redundancies. Consider alternative staffing approaches such as outsourcing, contract workers or flexible resourcing to align with fluctuating demand and maximize cost efficiencies.

3. Upgrade the enabling data and technology

Assess which areas of your business can benefit from migrating to digital platforms and implementing advanced data technologies and analytics. This may involve transitioning to the cloud, implementing self-service options, or upgrading legacy systems, for example.

4. Reinforce a cost culture

Place a strong emphasis on cost management throughout your organization. Encourage a culture of cost-consciousness and incentivize employees at all levels to contribute ideas and solutions to deliver ongoing cost efficiencies. Manage project costs carefully while still investing into future growth.

5. Quantify the value

With the right sources of data and tools, organizations can very quickly identify and accurately quantify the value creation opportunities across the business. Focus on those opportunities that can deliver the greatest long-term value for the organization in order to strengthen the foundation of the business and prepare for future growth.

We've seen the travel, leisure and hospitality sector weather a significant downturn during the pandemic and begin to bounce back, suggesting that focusing on managing costs and improving cost efficiencies can help secure a more certain future for the sector. By revisiting your operating models and considering how best to simplify, modernize and optimize, your businesses can more effectively tackle the challenges that come your way. And KPMG can show you how.

How KPMG can help

KPMG's global network of Travel and Leisure professionals combines deep sector experience with proprietary tools, data and solutions to help clients achieve value creation and continuous cost improvement. Our data-led approach to value creation, KPMG Elevate, allows clients to quickly identify, quantify and implement value creation opportunities. And our multidisciplinary teams of specialists leverage their experience and insight to help clients achieve operating model simplification, technology modernization and process transformation.

Contact your local KPMG firm to find out how we can help your organization achieve your unique goals.

Getting ready for CSRD

*By **Dr. Jan-Hendrik Gnändiger**, Partner, Global & EMA Lead ESG Reporting, Head of Risk & Compliance Services, KPMG Germany; and **Dagmar Mund**, Director of Risk & Compliance, KPMG in Germany*

Travel and leisure companies may face unique challenges complying with CSRD. Here's what you need to know about the new reporting requirements and some tips to make your CSRD compliance efforts more efficient and effective.

What is CSRD and why does it matter to travel and leisure companies?

The EU's Corporate Sustainability Reporting Directive (CSRD) is a regulatory framework which requires organizations to disclose detailed information on environmental, social and governance (ESG) aspects, with the aim of increasing transparency and accountability. Starting from 2024, almost 50,000 companies are subject to CSRD with mandatory sustainability reporting, including non-EU companies with subsidiaries operating within the EU and those listed on EU regulated markets.

The CSRD is much more rigorous in scope and depth of disclosure requirements than the previous Non-Financial Reporting Directive (NFRD), requiring affected companies to disclose hundreds of metrics and targets in accordance with the European Sustainability Reporting Standards (ESRS). The CSRD requires companies to disclose, for example, their current GHG emissions, decarbonization pathway to the 1.5°C target, illustrate concrete measures and report progress.

Why might compliance be a challenge for travel and leisure companies?

The aviation and cruise sectors face specific challenges in ESG reporting as their business activities are often associated with high emissions and environmental impacts while sector-specific regulation is missing to date. In addition, supply chains are often complex and globally interconnected, making data collection, data processing and the assurance of data difficult.

Dr. Jan-Hendrik Gnändiger

Partner, Global & EMA Lead ESG Reporting, Head of Risk & Compliance Services
KPMG in Germany
jgnaendiger@kpmg.com

Dagmar Mund

Director of Risk & Compliance
KPMG in Germany
dmund@kpmg.com

Furthermore, standardizing and consolidating the required non-financial information into a coherent format for CSRD compliance can be complex. Within the travel and leisure sector, we've seen some key challenges:

- **Complexity of data:** This sector encompasses a wide range of activities, from airlines and cruise ships to hotels and theme parks. Each of these activities has a different environmental impact and requires specific data for accurate reporting. Collecting, managing, and reporting this data in a consistent and accurate manner can be very challenging.
- **Integration of sustainability goals:** Many companies may not have previously implemented the necessary systems and processes to effectively integrate and monitor sustainability data. Updating existing systems or introducing new technologies to capture and analyze ESG data can be costly and time-consuming.
- **Regulatory requirements:** The CSRD significantly expands reporting obligations and requires detailed and standardized reports on a wide range of ESG aspects. It can be a challenge to adapt to the specific requirements and formats.
- **Resource requirements:** The development and implementation of a comprehensive sustainability strategy and associated reporting requires significant resources, including financial resources, technological tools and skilled staff.
- **Stakeholder expectations:** Customers, investors and the public have increasingly high expectations of companies' sustainability performance. Meeting these expectations while ensuring compliance can be a difficult balance for companies in the travel and leisure sector.

Are travel and leisure companies ready to start reporting in 2025?

For the most part, no. We recently conducted CSRD readiness checks on various companies from the travel and leisure sector and found a number of critical shortcomings in terms of CSRD compliance. Our reviews indicated that — while partial disclosures on climate change and business conduct have often been made — most of the requirements have not been disclosed properly. And none of the companies in our sample made disclosures for overarching aspects (such as governance, strategy, and double materiality considerations).

On the environmental side, the management of Impacts, Risks and Opportunities (IROs) for pollution, water, biodiversity and circular economy were not disclosed, which suggests travel and leisure companies may not be ready for many of the key environmental topics. And on the social side, our analysis uncovered numerous instances where companies only partially disclosed the management of IROs for their own workers and value chain.

What will it take for travel and leisure companies to comply efficiently and effectively?

Our CSRD team has helped a number of EU and non-EU travel and leisure companies prepare for CSRD. Based on our experience, here are six tips to help ensure more efficient and effective compliance.

1. **Integrate ESG objectives into your corporate strategy** to ensure that sustainability considerations are factored into all business decisions. This promotes a holistic approach that goes beyond mere compliance.
2. **Use IT systems to automate the collection of ESG data** to improve accuracy and reduce labor requirements. Sensors, IoT devices and integrated software solutions can help collect real-time data on environmental performance while technologies such as artificial intelligence and big data can accelerate adoption.
3. **Train employees on the importance of sustainability** and its regulatory requirements to strengthen data collection processes and drive sustainability initiatives within the company.
4. **Engage with stakeholders** (including customers, suppliers and local communities) to capture valuable insights into the impact and effectiveness of sustainability measures. This not only promotes transparency, but also enhances trust and external support.
5. **Leverage external expertise** in the preparation of reports and compliance with complex regulations as outside advisors can often bring industry-specific knowledge and best practices that may not be available in-house.
6. **Regularly review and adjust** the sustainability strategy and reporting practices to identify areas for improvement and ensure that the organization keeps pace with changing regulations.

A case in point: Assessing CSRD readiness

KPMG in Germany recently assisted one of world's largest aviation companies with the CSRD Assessment, which included scoping, reporting strategy, methodology review and audit-ready process documentation. The company was seeking a readiness check of its current ESG reporting and was looking for a collaborative partner who could provide concrete and practical recommendations and design a roadmap for implementation.

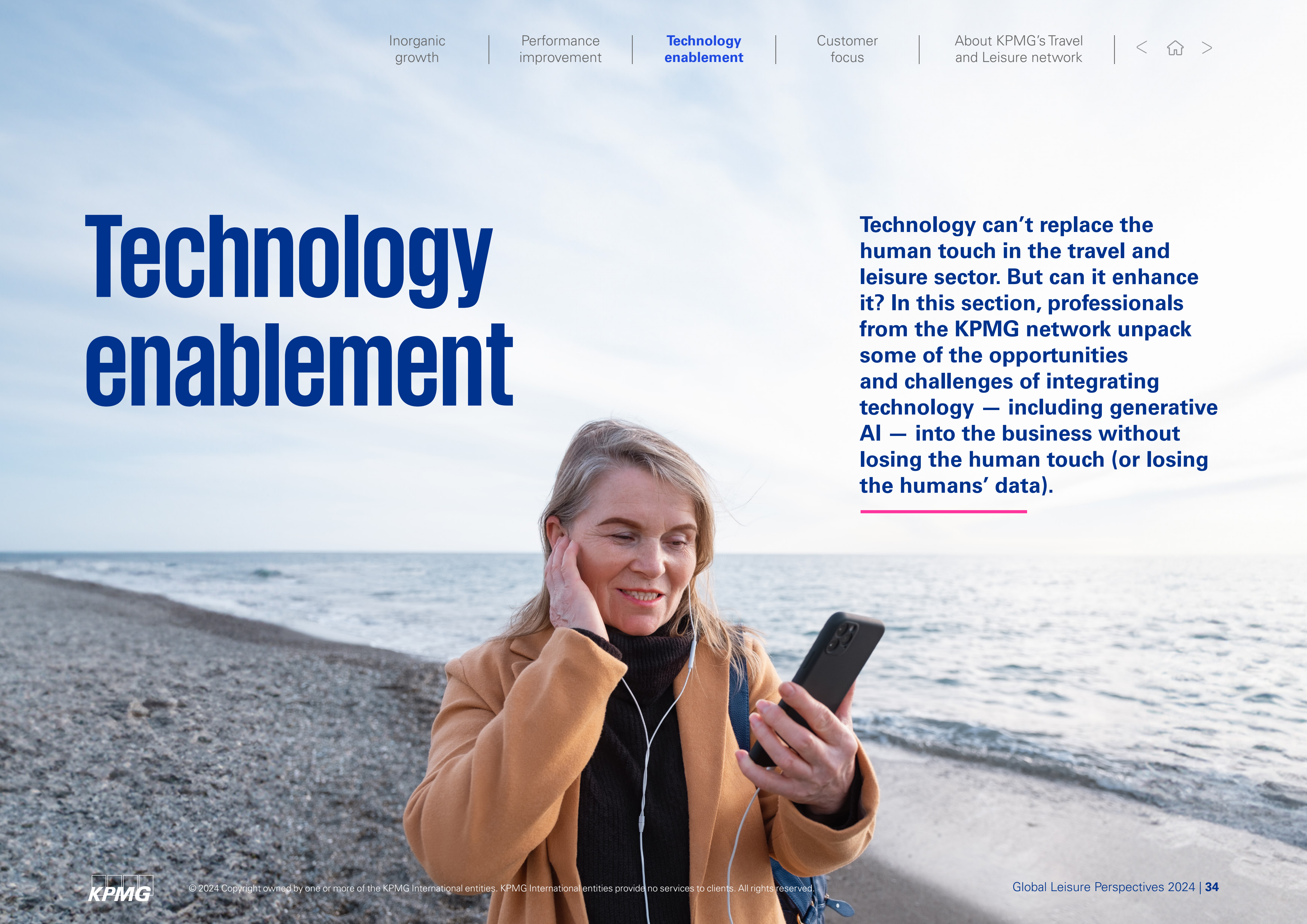
KPMG in Germany provided a robust ESG readiness check, provided industry knowledge and leading practices for customized recommendations and roadmap and enabled the company to organize future non-financial reporting by focusing on risk management and internal controls aspects.

How KPMG can help

The KPMG network of ESG reporting professionals support travel and leisure companies across all levels of ESG reporting to make the transition to sustainability as smooth and beneficial as possible. We help you to embed CSRD requirements in your organization while taking advantage of ESG-related opportunities.

Our modular project approach can be tailored to your individual needs. Our specialists have extensive experience in sustainability consulting and the auditing of sustainability reports. We develop pragmatic and helpful solutions and services to help you cope with the extensive requirements of sustainability reporting.

To find out more, check out our report, Get ready for the next wave of ERP reporting or contact your local KPMG firm.



Technology enablement

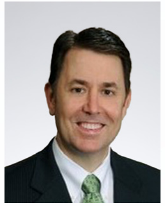
Technology can't replace the human touch in the travel and leisure sector. But can it enhance it? In this section, professionals from the KPMG network unpack some of the opportunities and challenges of integrating technology — including generative AI — into the business without losing the human touch (or losing the humans' data).

Digital transformation on the restaurant menu

*By **Paul Fultz**, Partner and US Segment Leader, Restaurants; and **Julia Wilson**, Principal, Advisory Strategy and ESG, KPMG in the US*

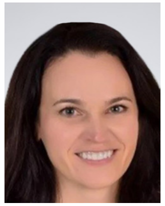
Following several years of pandemic-fueled headwinds, the restaurant industry is finally serving up sales growth as inflation slows, expectations for a recession diminish, labor markets improve and better-functioning supply chains relieve operational pressures.

To find out about restaurants' plans to invest in digital transformation to drive profitable growth, we talked with 40 senior restaurant executives, from the quick-service (QSR), fast-casual and full-service (FSR) restaurant segments. We asked about their plans to invest in digital transformation to drive profitable growth in 2024. Here's a synopsis of their four key areas of focus, based on our interviews.



Paul Fultz

Partner, US Segment Leader, Restaurants
KPMG in the US
pfultz@kpmg.com



Julia Wilson

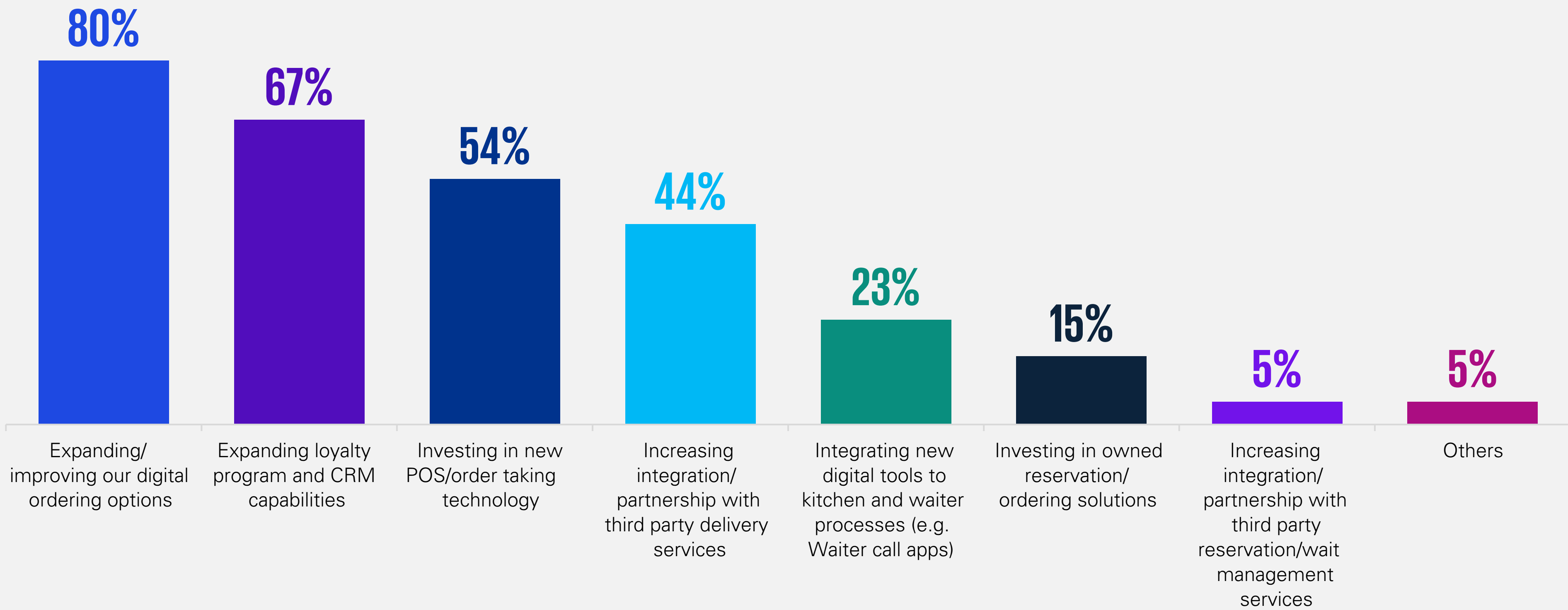
Principal, Advisory Strategy and ESG
KPMG in the US
juliawilson@kpmg.com

Four key trends driving restaurant digitalization

- **Front-office enablement:** Unsurprisingly, every respondent indicated they are working to digitally enable their restaurants in at least one area. A majority are looking to expand digital ordering options (80 percent), improve loyalty programs and CRM capabilities (67 percent), and invest in POS technology (54 percent). While increasing partnerships with third-party delivery services is common (44 percent), working with third-party reservation management services is not (five percent).

Executives are focused on expanding digital capabilities

What are you doing around digitally enabling the restaurant? (Select all that apply)



Source: Restaurant industry trends for 2024 — KPMG

- **Back-office transformation:** As organizations seek to gain better insight into their data and exert greater control over their finances, we are seeing significant investment flow into finance-related back-office transformation initiatives, particularly in the accounting and financial planning areas. At the same time, just over half of our respondents say they are investing in HR transformation, likely reflecting the sector's heavy reliance on customer service and customer experience to drive revenue.
- **Automation:** Nearly everyone in our survey agreed that automation would be strategically important to their organization, with 82 percent saying they are already investing in key tools and solutions. Interestingly, respondents representing larger, multi-brand platforms indicated they have more mature technology-driven solutions, with 50 percent indicating they are at or near maturity compared to only 14 percent of single-brand respondents, potentially positioning them to more efficiently address inflation and other cost-related pressures.
- **AI adoption:** Most restaurants (68 percent) are just starting their AI journeys and are exploring opportunities to invest in and implement AI tools. Perhaps not surprisingly given their volume and customer expectations for fast service, restaurants in the Quick Service sector were more likely to say they are already adopting AI than others (particularly versus Fast Casual where no respondents reported any progress on the AI journey).

Cautious optimism

The industry remains vigilant in an unpredictable economic climate. Challenges with staffing and customer retention persist. However, restaurants that embrace digital transformation to improve operational capabilities and enhance their employee and customer experience, are more likely, we believe, to remain competitive in the changing marketplace and secure long-term growth.

Case in point: Wendy's recipe for a high-quality HR transformation

Battling for talent in the food service industry is hard enough without battling your Human Resources (HR) systems, too. For Wendy's, which prides itself on its commitment to quality in every aspect of its business, managing pay and performance with its legacy HR systems was starting to challenge that commitment.

They selected KPMG in the US to help them make the difference for their highest-quality asset — their people — by deploying a significant HR tech upgrade powered by Oracle's leading-edge cloud Human Capital Management (HCM) system.

The powerful new HCM platform went live across all locations in Q3 2023, with tightly integrated modules uniquely designed for Wendy's needs on payroll, compensation, time and labor, benefits, performance, onboarding, and more. The result was a vastly improved HR experience for employees across the company — and more time to focus on delivering Wendy's signature quality recipe for great food and service.

Want to find out more?
Hear how Wendy's made the transformation a success, straight from their own leaders.

“As labor, supply chain and recession pressures abate, it is encouraging to see restaurant operators actively transform their operational capabilities and experiential strategies with digital technologies like automation and AI. It's that kind of innovative thinking that will impact customer loyalty, near-term value and long-term growth.”

Paul Fultz
Partner and US Segment Leader, Restaurants, KPMG in the US

Customer experience: Orchestrating tech and the human touch

*By **Duncan Knight**, Partner, Digital and Customer Consulting; and **Susannah Spencer**, Insight Solutions Lead, KPMG in the UK*

Customer experience ratings are declining. And evidence suggests the rapid introduction of technology may have something to do with it. As an experience-led sector, travel and leisure will need to work hard to ensure their technology is complementing the human touch.

Missed expectations

One might think that in a post-lockdown world, customer experience would increase as human interaction returned. Yet the data tells a different story. According to KPMG's global Customer Experience Excellence report, customer experience dipped 4 percent overall in 2023, with the entertainment and leisure category recording a decline of 7 percent.[54]

Why? The report finds that, in part, the trend is likely a consumer reaction to the transition from the heightened care and attention they became accustomed to during the COVID-19 pandemic, back to the normality that they had known before.

There is, however, another factor at play: the growing rise in technology as a substitute for human interaction. In a growing number of situations, customers, no matter their needs, find themselves directed to low-cost digital channels. It results in a lack of personalized support and emotional connection. And rather than enhancing the customer experience, technology can become a barrier to it.

Duncan Knight
Partner, Digital and Customer Consulting
KPMG in the UK
duncan.knight@kpmg.co.uk

Susannah Spencer
Insight Solutions Lead
KPMG in the UK
susannah.spencer@kpmg.co.uk

[54] KPMG Insights, "Artificial Intelligence and the orchestrated customer experience", 2023

Case in point: Hilton Hotels and Resorts

Hilton Hotels and Resorts rose seven places in our UK rankings, in part by successfully integrating innovative and unconventional technologies to deliver enhanced and personalized customer experiences.

In China, for instance, Xiao XI is the chain's first AI customer service chatbot. It serves as a quick one-stop-shop for all guests. It answers travel-related queries, provides hotel information, local weather updates and promotional details, and even checks in customers using the Hilton Honors App.

Beyond providing information, Xiao Xi can also engage with guests and provide intelligent suggestions and tips. Contextual correctness is down to extensive training of the generative AI model and the algorithms it uses. Since its launch in February 2020, Xiao Xi has answered more than 50,000 customer enquiries, with a 94 percent satisfaction rating that surpasses typical AI chatbot performance.

Don't blame the tech

To be clear, we firmly believe that technology is central to delivering a great customer experience. And it is opening up new opportunities to deeply personalize orchestration along journeys, enabling companies to scale individual customer personalization like never before. This can transform customer journeys, and at the same time, help businesses improve costs to serve, reduce friction and improve customer satisfaction.

New technologies like generative AI can bring significant value to travel and leisure companies. However, our research suggests there is a tipping point where — without proper attention — the 'human touch' can get lost in the embrace of AI technologies and capabilities.

KPMG's view is that technology and human capability must be orchestrated to deliver positive outcomes. Rather than substituting human capabilities with AI, travel and leisure organizations should be thinking about how they can bring both together in ways that complement and enhance the customer experience.

Say hello to your new AI colleague

To help create collaboration and integration between human and technology components, the report suggests companies may want to consider the value and benefits of considering AI as a virtual colleague. By anthropomorphizing AI as a virtual colleague, individuals and organizations can develop a clearer understanding of AI's role and potential within their workflows.

In the offline world, colleagues are allocated a job role described as a bundle of tasks, responsibilities and objectives. These are part of a process or a workflow. AI, too, can have a set of responsibilities and tasks discharged as part of their role. This perspective shifts the focus from seeing AI as an abstract technology to thinking of it as a tool with specific responsibilities, capabilities and limitations, where each of these tasks can be allocated to a human or a virtual colleague.

Orchestrating the experience

KPMG's Six Pillars of Customer Experience Excellence are based on the essential dimensions that come together to build strong experiences. Now, at the dawn of AI, The Six Pillars are proving once again to be relevant and essential considerations for companies keen to maximize the opportunities and minimize the risks of these advanced technologies as they elevate their customer experiences.

Here is how organizations can enhance their scores across all six pillars by orchestrating humans with AI.

- **Integrity and the ethics of AI:** Develop an AI ethics framework that sufficiently considers the downside risks of AI alongside its opportunities.
- **Resolution and AI-powered customer service:** Consider using AI on employee and customer feedback to identify patterns and surface hidden issues.
- **Managing customer expectations:** Develop a messaging framework and communications strategy about the role of AI in your business — aimed at both employees and customers.
- **Time and effort:** Streamlining processes: Focus on the onboarding journey — not only do first impressions count, but many downstream issues are seeded in the onboarding journey.
- **Personalization and tailored experiences:** Make data a board level issue, defining and evaluating a Customer Data Platform (CDP) as a means of aggregating and synchronizing customer data.
- **AI-powered empathy:** Identify where AI can augment and empower employees and help them deliver a superior experience in partnership with technology.

Case in point: Emirates

Emirates Airlines, a leader in our CEE Hall of Fame, is an early adopter of new technologies, always seeking to understand and apply technology to improve the customer experience. It has launched a new innovation platform at its headquarters, featuring products powered by AI as well as virtual reality and 3D exhibits.

Emirates also focuses on streamlining the customer journey with technology and initiatives, such as multilingual mobile check-in ports at Dubai International Airport and biometric partnerships for smooth transitions. It also allows customers to pre-order their in-flight meals between 14 days to 24 hours in advance.

Looking ahead, Emirates intends to use technology to revolutionize the airport experience. It will streamline the entire journey using biometrics, advanced security measures and efficient boarding sequences.

The aim is to achieve a level of personalization that enhances the individual's experience, without being overwhelming or intimidating.

How KPMG can help

Ultimately, for technology to help enhance the emotional connection, it is critical for companies to see customer experience as a two-way street: a shared moment or co-created encounter which happens at a given touchpoint. Whether physical or digital, each touchpoint should reflect the company's DNA and their values in every way, so they connect at a human level even when technology is involved.

At KPMG, our team of customer specialists can help you understand the changing customer shifts that are emerging and how your business will need to evolve to deliver a customer-centric experience that is more connected, digital and efficient than ever before. Contact us today to see how we can help.

Unlocking the power of generative AI in travel, leisure and hospitality

*By **Daniel Fischer**, Principal, Strategy, KPMG in the US*

Daniel Fischer

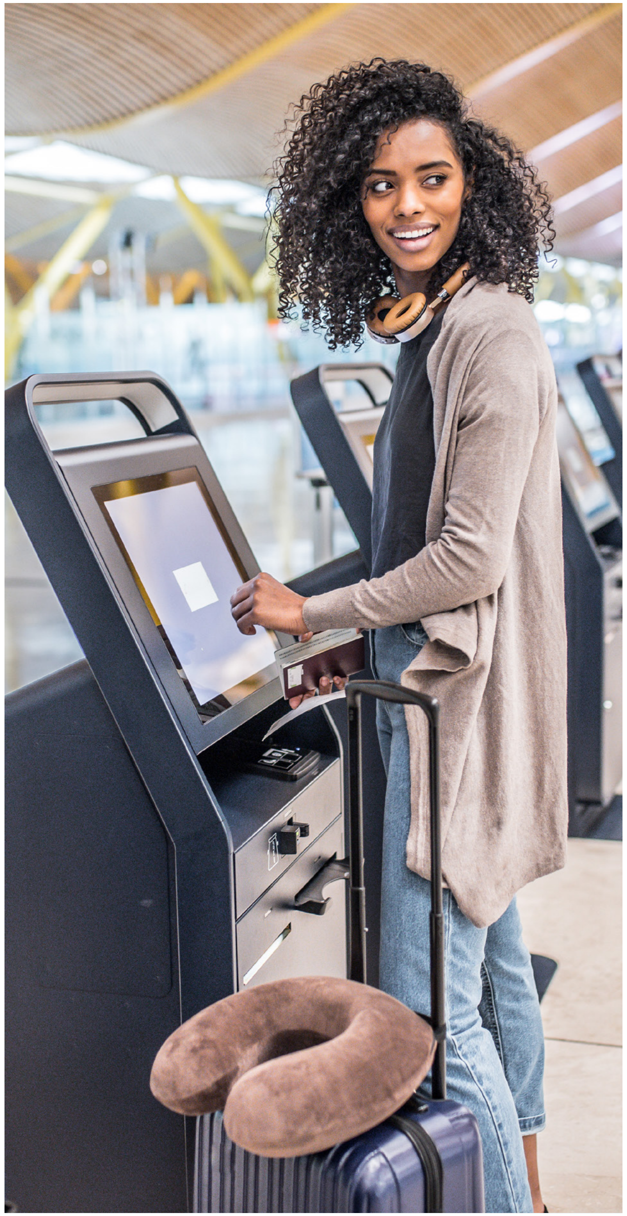
Principal, Strategy
KPMG in the US
danielfischer@kpmg.com

Generative AI isn't just a step forward in artificial intelligence — it's a giant leap. And the applications for the travel and leisure sector are significant. Here's how the market leaders are using generative AI to drive measurable value, while simultaneously controlling the risks.

Why is generative AI different?

Conventional AI has been around since the 1940s. It sticks to predefined rules and follows human-generated coding to recognize patterns and make predictions. Generative AI, on the other hand, learns its own set of rules based on vast amounts of data and a set of parameters. Which allows it to (come pretty close to) mimicking human creativity and intelligence.

It's no wonder that business leaders consider Generative AI the gamechanger of the future.[55] In fact, according to a survey conducted in 2023 by KPMG in the US, 74 percent of executives think generative AI will be the top emerging tech that will impact their business over the next year and a half.[56] IDC, a research and analytics firm, estimates that companies are already getting an average of $3.50 for every $1 they invest into AI.[57] Not surprisingly, 83 percent of executives in our survey think they will increase their investment into generative AI by 50 percent or more in the next year.[58]



[55] KPMG Insights, Generative AI: From buzz to business value", May 2023
[56] KPMG Insights: Generative AI: From buzz to business value", May 2023
[57] Microsoft, "IDC Business Value of AI Survey", September 2023
[58] KPMG Insights: Generative AI: From buzz to business value", May 2023

The potential of generative AI

In travel, leisure and hospitality, we are seeing the leaders explore, pilot and scale generative AI applications and use cases across the enterprise. And many are finding the potential for significant value. For example:

- **They are generating new insights.** We are seeing big players in the hotel sector explore the potential for generative AI to provide them with better predictions and insights on key measures such as occupancy, price elasticity and demand. We have also been talking with organizations seeking to use generative AI to personalize marketing and loyalty promotions for individual guests and optimize revenue management strategies to increase occupancy and revenue per room. And they are deploying new AI colleagues to the frontlines of the business to help employees serve customers more effectively.[59]
- **They are optimizing the customer experience.** We are also seeing hotel sector companies testing how generative AI can improve the customer experience through tailored self-service and reservation processes for guests, or chatbots to provide seamless support around-the-clock — managing bookings, building customer itineraries, comparing prices, etc. Hilton Hotels, for example, uses Connie, an AI bot that answers customer queries, while Emirates Airline has a virtual check-in agent called Sara.[60] While the main objectives remain focused on customer experience, they are also looking for opportunities to alleviate pressure on frontline staff.
- **They are enhancing productivity**. We are seeing significant advancements made with generative AI in the automation of processes and tasks, particularly repetitive and time-consuming activities that take employees away from guest-facing tasks. They are also using it to drive productivity in the back office — generative AI is being used in finance to automate data extraction from invoices and receipts and reduce manual input. In HR, it is being used to streamline the hiring process by identifying top candidates and matching their skills and experience to roles. In procurement, it expedites contract review and approval processes.

Here are a few ways that KPMG's member firms are helping companies apply generative AI

- **Rapid personalization:** KPMG in the US helped a client to integrate generative AI into its product-design process, enabling rapid prototyping and product personalization to suit customer preferences.
- **Enhanced customer engagement:** Partnering with a client, KPMG in the US used generative AI to drive product visualizations that boost the frequency of customers' interactions with the company.
- **Faster business pitches:** KPMG in the US helped its client to speed up responses to request for proposals, implement sales-support chatbots and improve search engine optimization.

[59] KPMG Insights, "Say hello to your new AI colleague", 2023

[60] KPMG Insights, "Artificial Intelligence and the orchestrated customer experience", 2023

What's slowing progress?

Despite generative AI's transformative promise, there are risks and challenges to adoption. In the KPMG survey, respondents were most worried about the potential for changes in the regulatory landscape (the survey was conducted before the EU's Artificial Intelligence Act was passed), likely also reflecting expected changes to privacy and data protection regulations. They also raised concerns about their ability to pivot their legacy infrastructure to adapt to the new requirements of AI.[61]

Industry leaders — and their guests — are also deeply concerned about the security and privacy risks inherent in a new technology like generative AI, particularly given how much personal data travel and leisure companies tend to hold on their customers.

In many cases, particularly where generative AI capabilities are likely to be applied as part of an existing vendor solution set, this is about updating and modernizing existing risk management practices and building resilience to security breaches in their day-to-day operations. Those more focused on driving real innovation are putting significant thought towards how they might control, govern and manage their organization's use of generative AI more proactively.

Generative AI is already here — and many of the leading travel and leisure companies are already hard at work testing, piloting and scaling new generative AI applications that promise to generate new and valuable insights, transform the customer experience and enhance productivity. While there are certainly significant challenges and risks to overcome, the biggest risk is to do nothing. At the pace generative AI is moving, those standing still will surely be left behind.

[61] KPMG Insights: Generative AI: From buzz to business value", May 2023

5 key focus areas when considering generative AI in the workplace

1. Functional impact:
Consider how generative AI processes, applications and ways of working might impact IT/Tech, operations, and marketing and sales.

2. Workforce models:
Generative AI can unlock new ways of working and allow employees to focus on value-added tasks.

3. Risk management:
Specific focus should be placed on managing the risks of generative AI, as well as the potential cybersecurity challenges.

4. Culture:
Don't ignore the broader cultural implications of bringing AI colleagues into the workforce.

5. Technology and enablers:
Generative AI requires lots of robust data, compute power and models in order to deliver insights.

How KPMG can help

KPMG combines deep industry expertise in travel, leisure and hospitality, with advanced technical skills to help business leaders harness the power of AI to accelerate time-to-value in a trusted manner — from strategy and design through implementation and ongoing operations. Contact us today to learn more.

Building cyber resilience

*By **Tim Fletcher**, Director, Cyber, KPMG in the UK*

Tim Fletcher
Director, Cyber
KPMG in the UK
tim.fletcher@kpmg.co.uk

The spate of high-profile cyber incidents in the travel and leisure sector illustrates that nobody is immune from cyber attack. It's a case of 'when', not 'if'. Here's what the leading players are doing to better protect their data, enhance cyber risk management and build organizational resilience.

Travel and leisure in the crosshairs

You've been battling cyber attackers for years. Maybe you've been successful. Maybe you've already experienced a breach. But the reality is that data breaches and ransomware attacks are on the rise around the world and your organization is a potential target. You know that a successful breach is just a matter of time.

The problem is that the actors and attack vectors keep evolving and expanding. Traditionally, most hackers and attackers tended to focus on monetizing the cyber vulnerabilities of high-profile brands. Now, however, state actors are getting involved — creating a real risk for hotel and conference groups with a reputation for hosting high-profile guests or events, for example. Phishing attacks continue. But attackers are now also using tricks like prompt injections against AI bots to get access to data and systems.

Travel and leisure organizations also look like comparatively juicy targets to attackers. They hold lots of sensitive data on lots of customers. And customer safety (digital and physical) is key to the brand promise. But — compared to other sectors swimming in personal data like financial services or healthcare — cyber security is significantly less regulated in the travel and leisure sector. The sector also tends to be keen on inorganic growth, and poorly executed integrations make fertile ground for hackers and attackers.

Towards resilience

The risks stemming from an unexpected IT incident — a cyber attack or simply an unintentional IT meltdown — can be significant. Immediate impacts might include anything from the loss of control over operating and control systems at the enterprise level or at the asset level through to data theft and the loss of key intellectual property. Downstream impacts might include fines and penalties from governments or consumer regulators, recovery costs and litigation costs.

Perhaps most worrying of all is the impact of an IT Incident on a brand's reputation and customer trust. Particularly in the case of data hacks, consumer and stakeholder trust can take significant time and effort to rebuild.

Not surprisingly, we are seeing a notable shift towards creating a strong balance of cyber protection and cyber resilience. Protection is everything the organization does to prevent attacks. Resilience is all about how quickly the organization can resume regular operations, and how they can minimize the impact on customers. The resilience agenda has been a particular focus of regulators in the financial services and critical infrastructure sectors which, in turn, is setting the cyber agenda across industries.[62]

Four key action items

Our work with travel and leisure leaders — as well as our exposure to leading practices in key sectors such as financial services and government — suggest sector CISOs and executives should be considering four key action items.

1. **Put cyber on the board agenda.** Ideally, the CISO should be briefing the board on a regular basis, framing the issues in a language that is relatable and pragmatic. The board will need to get comfortable with the idea that the cyber risk registry will never be completely green, and that needs will evolve as the risk and organization change.
2. **Balance protection and resilience.** Assess how the organization can respond better and faster if attacked again next week and next month/year to identify 'quick wins,' like expediting payments, ensuring liquidity, improving communication and enhancing response speed. Ensure you include a broad range of people with different views to work through likely scenarios, and then get going on addressing key gaps.
3. **Understand the challenge and prioritize the risk.** Know where critical data — both structured and unstructured — resides across the organization, as well as where it's shared with third-party partners. Know who in your technology ecosystem is handling guest information and asses the related risks. Cyber risk quantification is a great way to translate cyber as an unknown topic into a measurable (dollar) value tied to key current threats which can then help prioritization.
4. **Implement 'security by design' principles.** Organizations should ensure that cyber and security considerations are taken into account for any product, service or strategic initiative from inception through to launch. Security by design should be embedded into the culture of the organization from the top down.

How KPMG can help

KPMG firms have experience across the continuum — from the boardroom to the data center. In addition to assessing your cybersecurity and aligning it to your business priorities, KPMG professionals can help you develop advanced digital solutions, advise on the implementation and monitoring of ongoing risks and help you respond effectively to cyber incidents. No matter where you are in your cybersecurity journey, KPMG firms can help you reach your destination.

[62] KPMG Insights, "Cybersecurity considerations 2024", 2024

Customer focus

As travel and leisure companies move to reorient their entire business around the customer, many are finding new ways to drive loyalty and customer lifetime value. In this section, professionals from the KPMG network explain how some of the leading organizations are creating customer experiences and interactions that deliver long-term growth.

Loyalty boost: Remaining relevant

*By **Daniel Fischer**, Principal, Strategy, KPMG in the US*

Daniel Fischer
Principal, Strategy
KPMG in the US
danielfischer@kpmg.com

Customer loyalty programs provide massive value to travel and leisure companies. They build relationships and encourage repeat visits and purchases. They enable cross-selling and upselling, increase average order value and drive new revenue opportunities. And they provide travel and leisure organizations with data and deep insights on their customers and their preferences.

Competition between loyalty clubs has become fierce. And expectation cycles have become shorter — what customers considered valuable last year will look stale and outdated next year. At the same time, the past few years have seen a massive shift in customer expectations, technological capabilities and digitalization.

Unfortunately, many companies are struggling to keep up. According to the most recent Customer Experience Excellence report by KPMG International, customer perceptions of their experiences is on a downward trend globally (down 3 percent year over year).[63]

As a result, we are seeing many of the leading hotel, travel and leisure companies invest heavily into upgrading and modernizing their loyalty programs. KPMG's travel and leisure professionals are behind some of the world's most innovative and influential loyalty programs in the sector. Our experiences suggest the leaders are currently focusing on five key areas to remain relevant and achieve differentiation.

[63] KPMG Insights, "Artificial Intelligence and the orchestrated customer experience", 2023

1

The personal touch

Customers see personalization as the greatest driver of loyalty.[64] Personalized perks make customers feel valued and appreciated; they engage more with the brand and forge a deeper emotional connection. Armed with deep data on purchase history, demographics, behavior analysis, feedback, surveys and third-party data sources, the leaders are using new technologies to analyze customer preferences and tailor unique propositions to match each member. Hilton Hotels, for example, uses AI to drive its Hhonors loyalty and promotional activity.[65] Done right, personalization can create a positive feedback loop that translates into higher levels of customer satisfaction and, in turn, greater profitability.

2

Tiered benefits

The more the customer engages with the brand, the bigger the rewards. Tiered-benefit programs adapt to different levels of loyalty and spending, ensuring that the right rewards reach the right members. This not only incentivizes repeat business but also encourages customers to go after bigger rewards in the next tier, spending more as they go. In the travel industry, we are seeing the leading programs offer an attractive base-level membership, with escalating and aspirational benefits at higher tiers. They include, for instance, lounge access, priority concierge service and gifts, which are designed to make customers feel that their long-term relationship with the company is appreciated.

3

Technology integration

As new technologies emerge, evolve and become mainstream, travel and leisure organizations are exploring how they might leverage new tools and models to drive outcomes. Tokyo Disney, for example, has harnessed technologies to encourage customers to return to specific attractions at their park.[66] Emirates Airline uses AI to automate customer check ins. Some of the leaders are using beacon technologies to deliver personalized offers and promotions as customers check in. Others are exploring how blockchain technologies might provide a more robust and reliable way to store and manage redemptions across multiple partners.

4

Rewarding activities

Many of the leading programs are exploring how to turn customer loyalty into greater customer advocacy. Rather than simply awarding points on purchases, some of the leading programs are rewarding points activities like social media engagement, product reviews, referrals or partnerships with other brands. Rewarding customers' broader activities not only creates better influencers and advocates for the brand, it can also create stronger customer relationships and increase the likelihood of long-term loyalty.

5

Beyond travel

Customers are looking for experiences — sometimes that means discounted travel or hotel stays — but not always. We are seeing many of the leading loyalty programs partner with other experience providers to offer their members a more diverse range of options. These include exclusive events — in person or digital — as well as discounts with popular media platforms or subscription services, early access to new services and luxury items and partner perks that cater to customers' diverse interests and preferences and encourage deeper engagement.

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[64] Ibid.

[65] Ibid.

[66] Ibid.

Remaining relevant to your members

In today's fiercely competitive market, your customer loyalty program can be a game changer. It not only builds stronger relationships and drives higher revenue per customer, it also allows you to tap into massive amounts of valuable data that will enable you to find new engagement opportunities, build the brand and evolve the loyalty program to remain relevant to customers as their needs and expectations change.

Customer loyalty is constantly evolving. The loyalty program must, too.

How KPMG can help

KPMG professionals have worked with many of the sector's leading loyalty program operators, providers and sponsors to build, evolve and measure their programs to drive business outcomes. From loyalty program strategy development and analysis through to implementation and integration, KPMG professionals have the tools, capabilities and experience to help your program remain relevant.

What should you do next?

As you assess your existing loyalty program and consider how to remain relevant to customers in the future, here are five questions you may want to ask yourself:

1. Are your rewards relevant and valuable?
2. Are you delivering a personalized customer experience?
3. Have you gamified the program and interaction?
4. Can you simplify the redemption process?
5. Are you collecting and acting on feedback?

Tap into the full value of your customers

*By **Luis Buzzi Fagundo**, Partner, Management Consulting, KPMG in Spain*

Luis Buzzi Fagundo

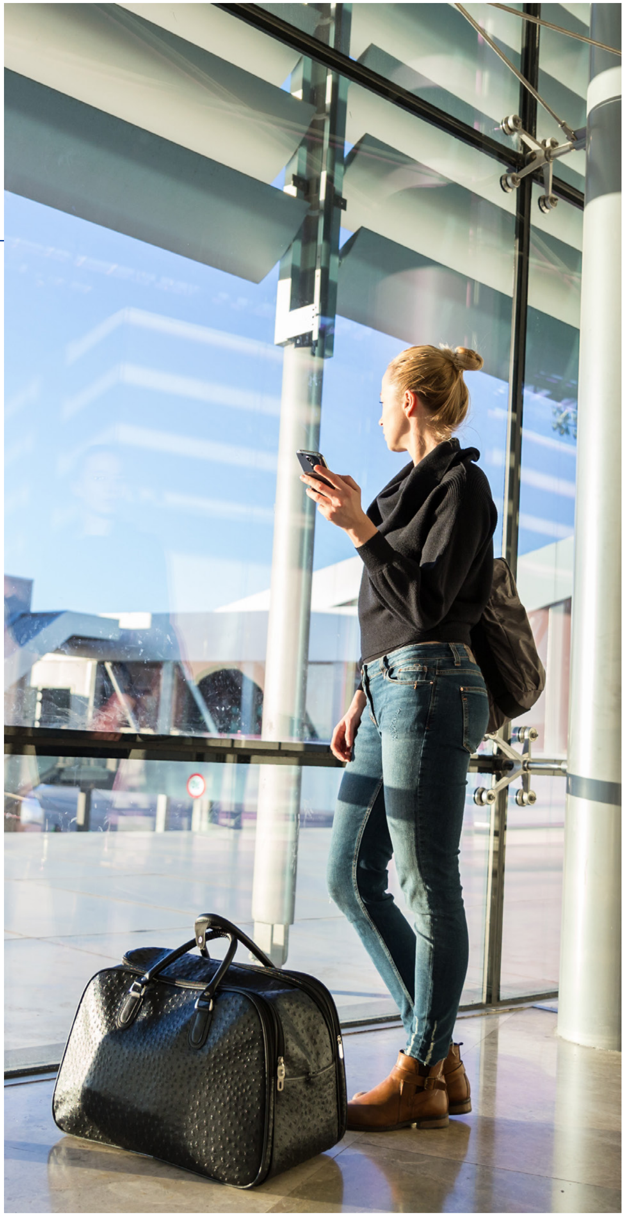
Partner, Management Consulting
KPMG in Spain
lbuzzifagundo@kpmg.es

Not all customers represent equal value to an organization. And in today's competitive travel and leisure landscape, knowing your customer's lifetime value (CLV) can be crucial to long-term success. Here's why CLV is important and what you need in order to use it.

Why CLV matters

Customer Lifetime Value (CLV) modeling is a way for businesses to predict the revenue they can generate from each customer throughout their relationship by analyzing customers' past transactions and using analytics to predict their future behavior and worth.

Airlines and cruise lines use CLV to select which customers might get offered upgrades, lounge access passes or personalized experiences.[67] Hotels have long used CLV to better segment their customers in order to provide more tailored offers such as complimentary stays, room upgrades or personalized amenities.[68] Tour operators use CLV calculations to design exclusive travel packages. Loyalty program operators and owners use CLV data to design key benefits and value propositions for different customer segments.[69]



[67] The Economist, "Flyer's should worry about customer lifetime value scores", November 8 2018
[68] Forbes, "How big data and analytics are changing hotels and the hospitality industry", January 26 2016
[69] KPMG Insights, "The truth about customer loyalty", 2019

This isn't just about handing out goodies and rewarding your most valuable customers. CLV can also help travel and leisure players pinpoint customers who are at risk of leaving, allowing organizations to implement retention strategies that reduce churn. It allows them to predict changes in customer expectations and needs. More importantly, it provides critical insight to help the business define where and when it will invest and the returns they might achieve (this recent article by KPMG in the US explains how CLV can help you transform your decision making).

Ultimately, CLV is all about increasing customer retention, creating cross-sell and up-sell opportunities, driving loyalty and — as a result — increasing revenue and profitability.

Turning CLV data into actionable insights often requires the support of other enabling technologies such as CRM systems, analytics platforms, marketing automation tools and agile programming environments.

Building the right foundations

Making the link from CLV to profitability, however, requires travel and leisure executives to ensure they have the proper foundations and capabilities in place. Here are five key areas decision-makers should be analyzing as they consider their adoption of CLV.

- **Data:** As with any model, the reliability of CLV insights and outputs depends on the accuracy and consistency of data inputs. Businesses must take care to ensure the quality and reliability of data is sufficient to make informed decisions and maximize the effectiveness of their loyalty and marketing strategies. The ETL (extract, transform and load) process, in particular, should be carefully managed.
- **Tools:** Turning CLV data into actionable insights often requires the support of other enabling technologies such as CRM systems, analytics platforms, marketing automation tools and agile programming environments. Organizations will want to ensure they have an appropriate level of capability and capacity with these systems and tools as they look to apply CLV insights across the organization.
- **CLV formula:** Value represents different things to different organizations, meaning that every CLV formula is slightly different based on the organization's objectives, available data and business strategy, for example. Yet CLV formulas are also living, evolving things; ensure you have the right processes and review mechanisms in place to keep your formula up to date as circumstances change.
- **Adoption and integration:** Shifting to a CLV approach to segmenting customers requires adoption to be orchestrated across operational, tactical and technical fields of play and for CLV data and requirements to be integrated into the organizational model. In many cases, this may require a full transformation of processes and operating models from the IT function through to client strategies.
- **Customer journey:** Understanding CLV can allow your organization to influence a range of touchpoints and influences along the customer journey. Consider how this will enable you to offer a better and more personalized customer experience and improve engagement through the loyalty program and regular, targeted communications.

Value evolves

CLV modeling isn't a one-time activity but rather an ongoing and dynamic process. It ensures the program stays relevant and adapts with changing customer behaviors and evolving market conditions. And it allows businesses to make timely adjustments to their loyalty and marketing strategies.

When done properly, CLV can become a valuable tool in navigating the challenging and ultra-competitive business environment and translating customer loyalty into long-term value.

Case in point: Driving a hotel group's profitability with CLV

KPMG in Spain recently worked with a leading Spanish hotel group to grow their profitability, increase customer repeat visits and enhance loyalty by implementing a CLV customer segmentation model.

We helped them develop a dynamic segmentation model that ingested more than 30 different data points to calculate the current and potential future value of customers. We applied machine learning to match CLV to marketing activity with real-time monitoring of campaign effectiveness. And we helped them micro-segment their customers for marketing campaigns and redefine the customer journey and value proposition.

The project has been a tremendous success. Gross operating profit is set to increase by more than EUR500 million in the first five years on the back of revenue growth and reduced customer acquisition costs. Search-engine-led customer recruitment campaigns have been replaced by targeted campaigns, which are expected to deliver cost reductions of around 65 percent within five years. The ratio of loyal customers has increased from 43 percent to 80 percent, resulting in a 60 percent increase in spending per customer. Perhaps most importantly, all departments are now aligned around the customer function, making customer value central to the business.

ESG in gaming: Responsible matters

*By **Rick Arpin**, Gaming Practice Leader, KPMG in the US; and **Joanna Hojjati**, Partner, Risk Consulting, KPMG in Canada*

How much does ESG matter to consumers when choosing gaming providers?

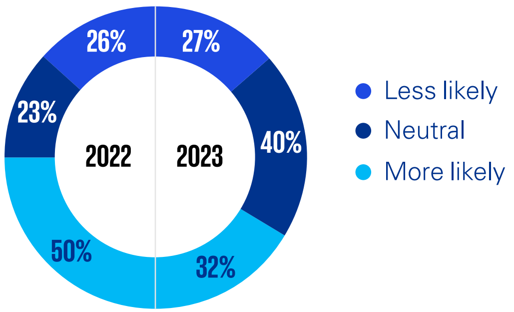
In 2022, when KPMG first asked consumers in the US and UK this question, half of our respondents said that ESG factors impacted their decision about where to gamble. And nearly half prioritized ESG more in gaming than in any other purchase.[70]

A year later, we repeated the survey. And while the percentages had dipped (a reflection, perhaps, of ESG fatigue among consumers more broadly), nearly one-third of customers still said that they judge gaming companies on their ESG efforts.

But what does ESG actually mean to gaming customers? According to our 2022 survey, half of gaming customers say that ethical behavior is the most important ESG matter for operators to uphold.[71] They expect winnings to be paid out promptly, personal data to be protected and for customers to be treated fairly.

So what can gaming companies do to cultivate lasting customer relationships and secure ongoing industry success?

When deciding where to gamble (company and/or platform), how likely are you to consider ESG factors?



* Percentages may not sum to 100% due to rounding.

Rick Arpin

Gaming Practice Leader, KPMG in the US

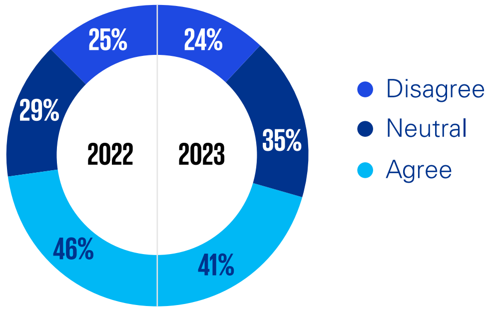
Joanna Hojjati

Partner, Risk Consulting, KPMG in Canada

[70] KPMG Insights, "The sustainable gaming customer", 2023

[71] KPMG Insights, "ESG scores points with gaming customers", 2022

ESG factors are more important when I consider spending money with a gambling operator than when I consider making a purchase from any other company (e.g., food, clothing, automobiles, etc).



* Percentages may not sum to 100% due to rounding.

How gaming companies can build sustainable relationships

In our most recent survey, we asked gaming operators and customers what the industry is doing right and where it needs to improve. The responses highlighted four principles for creating sustainable customer relationships.

- **Trust:** At least half of the customers we surveyed said they trust operators to treat them fairly, make honest disclosures, provide prompt payouts and protect their data. But declining tolerance for gambling advertisements — down from 67 percent in 2022 to 53 percent in 2023 — demonstrates that operators must work at building trust through transparent and ethical communications.
- **Enjoyment:** While gamers want excitement from products, and operators strive to deliver it, balance is needed. Our survey suggests that operator or regulator limits on products would persuade 48 percent to spend or gamble less. To help gamers to find the best fit for their risk tolerance, operators should provide easy-to-follow information about different games and products.
- **Value:** Customizing products to customers' preferences is essential for providing value and enjoyment. While some customers want small but frequent rewards, others are after the big prize. Knowing the customer is important because their preferences vary by demographic and geography. Meanwhile, more transparent terms for bonuses and promotions will enhance perceived value beyond sign-up.
- **Protection:** Awareness of responsible gaming tools is high (90 percent), up from 82 percent in 2022, but 38 percent have never tried player-protection tools. Encouraging greater use of tools, like deposit limits, time limits and self-exclusion, is essential to industry sustainability. At the same time, customers are sensitive about the use of their personal information with more than half of customers saying they object to sharing tax or banking information with operators. Respect for their concerns, clear communications and consent mechanisms are vital to preserving the relationship between parties.

Case in point: Responsible advertising

In April 2023, several major sports leagues and media entities joined forces to establish the Coalition for Responsible Sports Betting Advertising. This voluntary association agreed several tenets for responsible advertising, like refraining from targeting ads towards children and ensuring advertisements are not misleading.

Source: Legal Sports Report, „Top US Leagues Form Sports Betting Advertising Coalition," April 19, 2023.

Staying in the game

To keep customers for a lifetime, gaming operators should work closely with the ecosystem of content and game creators, payment and marketing providers, regulators, media providers and sports companies, to balance the key elements of trust, enjoyment, value and protection. And, together, they can build and support a safe, responsible and sustainable gaming industry.

ESG is important to the gaming industry, not only for ethical reasons, but also for fostering a positive social impact. More responsible and forward-thinking operators promote a healthier and more cognizant industry, aiming to benefit both gamers and investors. By prioritizing sustainability, social responsibility and robust governance, a more transparent and supportive industry is beginning to emerge.

Four ways to build trust with gaming customers

1. Enhance the visibility and adoption of player-protection tools
2. Leverage technology to spot and stem potentially risky player behavior
3. Exercise greater sensitivity about the impact of advertising
4. Adhere to voluntary codes of conduct and industry best practices.

How KPMG can help

KPMG gaming and hospitality professionals combine their experience with specialists across the KPMG network to help navigate the issues critical to industry success. In addition to core audit and tax services, we can assist gaming companies in a wide array of areas, including customer experience, technology enablement, mergers and acquisitions, process improvement, internal audit, cyber security and risk management and controls. KPMG firms work across all sub sectors within gaming: land-based operators, online operators, tribal suppliers, lotteries, racing and social gaming.

Contact us today to find out how we can help your gaming organization.

Creating economic growth with sustainable tourism

*By **Mia Thornton** and **Nate Bettini**, KPMG Australia*

How can an underutilized government asset enhance sustainability, improve economic growth and drive tourism at the same time? This article explores how Sugarloaf Farms in Australia is doing it.

Sugarloaf Farm is a heritage-listed former dairy and wheat farming complex just outside of Syndey, Australia. The intermediary landowner needed to transfer this significant government site for public good. And they wanted to see how the site could be used to help enhance sustainability, encourage tourism and improve the local community.

KPMG Australia helped the organization develop an open-space and community-based masterplan using a feasibility-driven approach to master plan optioneering and implementation strategies. We looked at:

- What community needs and aspirations could be realized on the site, especially considering the needs and aspirations of Indigenous Australians
- How the history of the site could be recognized, consistent with the State Heritage Listings and considering the outcomes from engagement with Indigenous Australians
- Opportunities for commercial land arrangements to offset site improvement, operations and maintenance costs.

Mia Thornton

Manager, Deal Advisory
KPMG Australia
mthornton4@kpmg.com.au

Nathaniel Bettini

Senior Specialist, Infrastructure & Real Estate
KPMG in Saudi Arabia
nathanielbettini@kpmg.com

Creating a sustainable tourism destination

Tourism was a key focus of the master planning. We found that Sugarloaf farm could integrate habitat regeneration and ecological preservation with sustainable tourism practices in order to operate as a financially viable asset while addressing its sensitive landscape. This filtered through its identified range of uses, their placement, their accessibility, provision of services and management.

The masterplan included a range of options for tourism that varied from higher intensity to low intensity/highly ecologically friendly. Higher intensity tourism uses were located in areas with pre-existing high ecological degradation, such as areas adjacent to a motorway and residential areas. Low intensity and more ecological friendly tourism strategies were proposed in areas that were either sheltered from human actives and of a higher ecological value.

For example, permeant structures for hotels, restaurants and artisan manufacturing were located along the adjacent busy road with items such as eco-cabins, plant nurseries, zip-lining and Australian aboriginal agricultural practices known as 'bush tucker gardens' were placed in more remote and sensitive areas.

Small footprint, big impact

The project prioritized opportunities to reduce the carbon footprint. The project is in a region of Sydney which is suffering from a rapidly increasing urban heat island affect due to its distance from the coast and adjacency to the Blue Mountains. The masterplan therefore identified how uses susceptible to heat island contribution could be mitigated. This included dispersing car parking into linear strips to enable heaver tree canopies and the dissipation of their absorbed heat.

It also considers the use of alternative materials to traditional black asphalt, thereby reducing heat stress to the environment, water needs of plants and electricity requirements for the air conditioning of buildings.

At the same time, the plan aspires to improve the sustainability of the wider region. The project creates a native plant nursery to facilitate habitat restoration of the site in addition to other habitat restoration projects in the region. It facilitates both local and urban agricultural practices, included embracing those of aboriginal Australians on a commercial, farm to table scale. And it leverages agro-voltaic and agro-forestry practices where there are mutual benefits to the level of agricultural production, bio-diversity and outputs from solar panels.

Financial sustainability was also key. To support that, the project leveraged a government bio-credit program where developers could pay to restore or enhance key ecological areas in exchange for higher development density on other lands. As the site is within a documented and critical Koala migration corridor, the site was able to utilise this in conjunction with other sustainable and eco-friendly tourism opportunities.

Growing sustainable tourism

Ultimately, this project illustrated how a site could use tourism as a catalyst to address it's the diverse heritage, ecological, physical, social and logistical considerations of its stakeholder to simultaneously improve its financial feasibility and community benefit.

To learn more about how KPMG helped Sugarloaf Farms — or to discuss your unique opportunities — we encourage you to contact your local KPMG firm.

7 trends shaping the future of hospitality (IMHO)

*By **Daniel Fischer**, Principal, Strategy, KPMG in the US*

Daniel Fischer

Principal, Strategy
KPMG in the US
danielfischer@kpmg.com

One of the great things about working at KPMG is that we are exposed to insights and ideas from around the world. We share best practices within our global network. We work with global clients, investors and stakeholders. We attend global conferences, author global whitepapers and host global events. Indeed, our global view is one of the many reasons our travel and leisure clients work with us to help solve their most complicated challenges.

Recently, I asked our network to help me identify the key trends influencing the travel and leisure sector globally. I challenged my colleagues to ensure the trends they identified were actionable, relevant and real. And we needed to provide examples of how actual travel and leisure companies were turning these trends in to opportunity.

Here are the seven trends that, in my humble opinion, are at the top of the list.

Trend 1 AI, robotics and automation

What's happening: Across the value chain, the leaders are investing in technology to improve operational efficiency and guest experiences.

What the leaders are doing:

- Using generative AI-developed pricing strategies to dynamically optimize room rates to reflect actual demand, seasonality and competitor pricing.
- Leveraging AI to create personalized marketing campaigns to target specific guest segments on travel-planning platforms.
- Creating AI-powered chatbots to streamline customer support functions, allowing staff to focus on high-value tasks.
- Implementing robotic solutions to handle luggage, housekeeping and other repetitive tasks, improving efficiency and reducing labor costs.
- Implementing AI-driven analytics to optimize energy consumption patterns, reduce costs and minimize a hotel's environmental impact.

For example: Marriott Hotels has implemented an AI-powered chatbot to enhance their customer service and streamline guest interactions.

Trend 2 Personalization

What's happening: To provide a personalized experience, from booking through to the stay itself, hotels are leveraging advanced data analytics.

What the leaders are doing:

- Unlocking insights from loyalty programs to help better understand guests' behaviors, allowing them to cater to individual preferences.
- More accurately-targeting marketing and relevant campaigns to encourage repeat business.
- Personalizing recommendations for attractions, restaurants and other services.
- Aggregating travel information, such as flight times and off-property dinner reservations, integrating personal information, like dietary requirements or accessibility needs.
- Customizing loyalty programs with tailored benefits, like birthday surprises, and experiences.

For example: Airbnb uses data and analytics to better understand the preferences and behaviors of their users, allowing them to provide personalized recommendations to both hosts and guests.

Trend 3 Next-level digital experiences

What's happening: Hospitality businesses are investing in user-friendly digital touchpoints to meet guests' evolving expectations.

What the leaders are doing:

- Using virtual reality and immersive technology to allow guests to view properties and facilities interactively before they book.
- Deploying mobile apps that enable easy access to information, as well as freedom to interact with hotel staff in real time to order room service or book transport, etc.
- Leveraging advanced technologies, like voice-activated assistants, or the ability to integrate devices, personalize entertainment choices, or enhance the in-room experience.
- Integrating contactless features into key touchpoints such as check-in, check-out, mobile key access, food orders, etc., further simplifying the guest experience.

For example: Royal Caribbean Cruise Lines offers virtual reality (VR) tours of its ships to help customers with bookings, dynamic dining options and upgrade decisions.

Trend 4 Alternative lodging

What's happening: As alternative lodging options, like rentals, hostels and glamping, grow in popularity, hotels are finding new ways to compete.

What the leaders are doing:

- Offering unique, authentic and quality experiences — bringing in local vendors, performers, visual artists, chefs, and son on — which alternative-lodging providers cannot match.
- Competing directly, acquiring alternative lodging companies or creating their own concepts to broaden their market share.
- Integrating alternative lodging options into their loyalty programs to provide unusual guest experiences.

For example: Marriott launched Homes and Villas, for instance, while KSL invested in Under Canvas to offer glamping in US national parks.

Trend 5 Innovative new revenue streams

What is happening: To maintain profitability, hoteliers are exploring new revenue streams and business models.

What the leaders are doing:

- Offering amenities, like leisure facilities, to locals or non-guests to boost revenue in the off-season or during periods of underoccupancy.
- Turning underutilized spaces into dedicated and well-equipped workspaces, which attract both guests and non-guests looking for flexible work environments.
- Collaborating with local businesses and service providers to curate unique experiences — such as art workshops — for guests, setting them apart from rival hotels.

For example: Accor Group is using space within their hotels to offer their WOJO flexible office and workspace program which has already attracted more than 11,000 members.[72]

Trend 6 Unbundling and customization

What is happening: Hotels are giving their customers options to personalize their stay, which boosts satisfaction and enhances revenues.

What the leaders are doing:

- Providing à la carte services, like early check-in, late check-out or access to premium facilities, which increase spend per guest.
- Leveraging AI-driven analytics to enable relevant upselling opportunities or tailored offerings based on customers' known preferences.

For example: IGH has enabled guests at certain properties to chose 'add-on' options when making their reservations, such as having a bottle of champaign in the room upon arrival.

[72] Accor website, "Wojo: Work. Share. Live", Accessed June 2024

Trend 7

Innovative partnerships

What is happening: The economic climate has squeezed potential for M&A, conversions and new builds, leading some hotels to look to innovative partnerships to fuel growth.

What the leaders are doing:

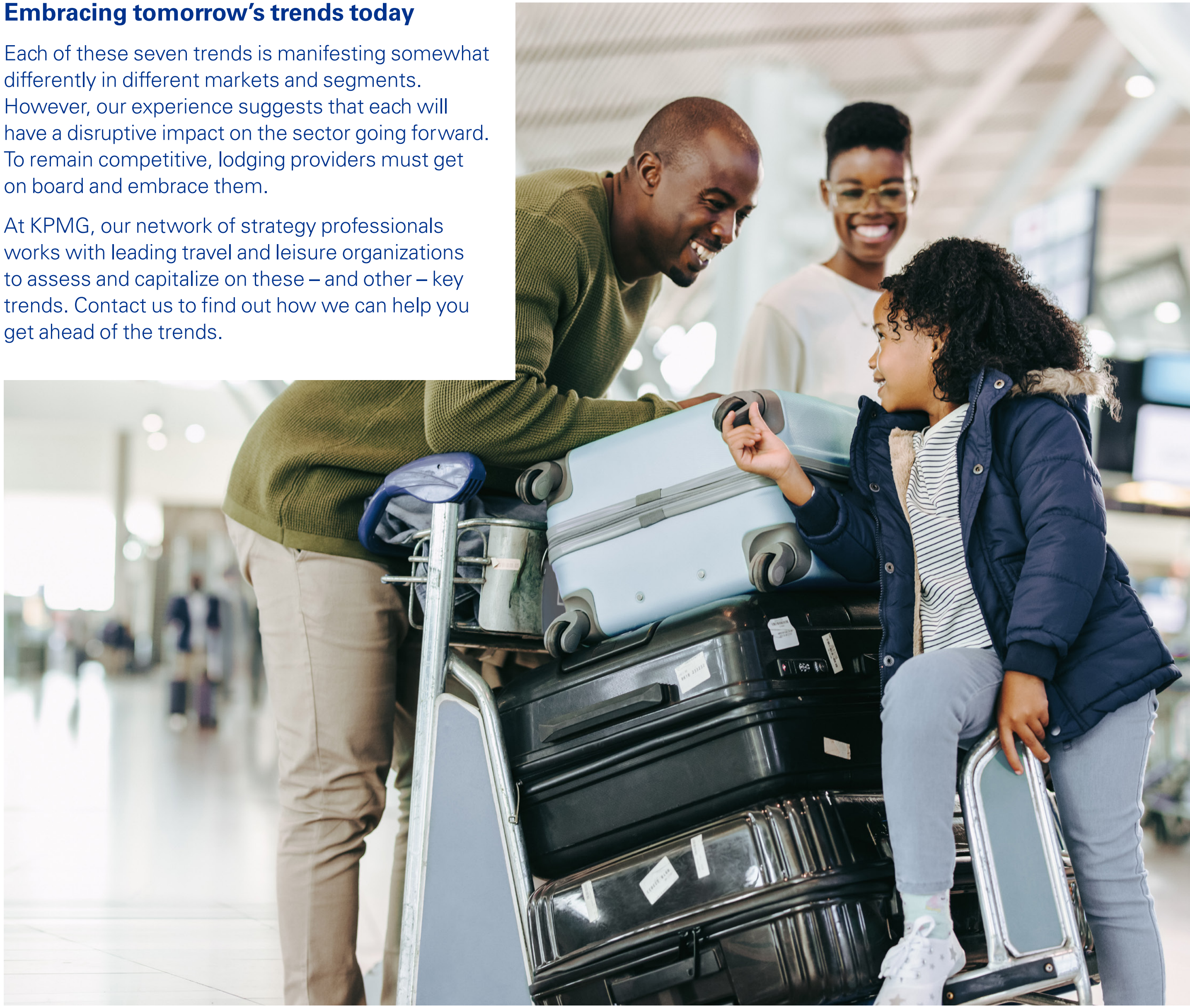
- Exploring opportunities for joint ventures, revenue-sharing agreements and co-branded marketing campaigns.
- Teaming with complementary partners to reach new markets, expand their customer reach and increase revenues.
- Using partnerships to differentiate themselves in a crowded market in ways that would be difficult to achieve alone.

For example: Hilton Honors loyalty program has partnered with Lyft, a mobility platform, where members can use points for rewards across both company's loyalty programs.

Embracing tomorrow's trends today

Each of these seven trends is manifesting somewhat differently in different markets and segments. However, our experience suggests that each will have a disruptive impact on the sector going forward. To remain competitive, lodging providers must get on board and embrace them.

At KPMG, our network of strategy professionals works with leading travel and leisure organizations to assess and capitalize on these – and other – key trends. Contact us to find out how we can help you get ahead of the trends.



About the KPMG Travel and Leisure network

KPMG's global network of professionals works with organizations across the travel and leisure sector to help increase profit margins, manage cash, meet shareholder demands and drive the customer experience. Drawing on the full suite of KPMG services and capabilities – including Tax, Audit and Advisory – and deep experience across more than 140 countries, KPMG professionals bring the insights, tools and capabilities travel and leisure companies need to thrive in today's environment.

Contact your local KPMG firm to learn more.

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Talk to us

If you would like to discuss any aspect of this paper, please don't hesitate to contact any of the authors or our regional leaders:

Global & EMA

Will Hawkley
Lead of Global Leisure & Hospitality
KPMG International
Partner, KPMG in the UK
E: will.hawkley@kpmg.co.uk

Americas

Braden Mark
Partner, Deal Advisory
KPMG in the US
E: bmark@kpmg.com

Asia

Anson Bailey
Head of Consumer & Retail, Asia Pacific
KPMG China
E: anson.bailey@kpmg.com

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