



Passion for leisure

A view of the UK leisure consumer

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About this research

This report is based on two consumer surveys carried out by an independent market research agency, YouGov, on our behalf. The surveys were conducted online with a nationally representative sample of over 3,000 UK adults aged 18+ using a set of questions designed by Deloitte LLP. The research for Q4 2015 was carried out between 4 and 6 January, 2016 and research for Q1 2016 took place between 18 and 20 March 2016.

Foreword

Welcome to our report on the UK Leisure Consumer.

In this report we look at the key drivers of the UK leisure market, how consumer behaviour is changing and the impact the growth of the leisure sector is having on the broader economy.

Consumer expenditure on leisure has grown nearly twice as fast as total consumer expenditure.¹ In the first quarter of 2016 95 per cent of consumers we surveyed reported to have spent some money on leisure.

We believe that the behaviour of the leisure consumer is a strong indicator of the prospects for the UK economy. In order to spend on leisure, consumers need to be confident and their personal financial circumstances have to offer them sufficient disposable income to spend on non-essential activities. At this time of growing uncertainty following the result of the referendum on EU membership, we should look to the leisure sector as a barometer for the strength of UK consumer confidence.

The UK economy has recently seen low inflation stemming from factors such as falling oil and other commodity prices. This combined with record high employment levels and gradually improving incomes has lifted consumer confidence. According to the Deloitte Consumer Tracker overall confidence in Q1 2016 was ten points higher than Q3 2011 and net spending on discretionary categories has risen. At the time of writing, with the UK heading for an EU exit we expect a short-term shock to UK growth, however it remains to be seen how UK consumers will react and what impact, it will have on spending.

The consumer mindset has changed. The emergence of the collaborative economy has made consumers comfortable with the idea of paying for access to goods and services rather than buying goods to own. This has made their consumption more 'efficient', as sharing assets, such as cars, leaves them with more money to spend on things they enjoy.

Indeed consumers want to spend their free time enjoying themselves and are seeking experiences that enrich or add convenience to their lives.

The collaborative economy is also at the forefront of the leisure sector, introducing innovative leisure offerings using new business models to capture a share of the growing leisure spend.

The leisure sector has consequently developed beyond its traditional core to include a broader range of activities and experiences. In our view this has led to the sector's influence on the overall economy being understated.

We see a new classification of leisure activities emerging: considered, occasional leisure activities and frequent, habitual leisure activities. The considered, occasional leisure activities represent the activities consumers traditionally perceive to be at the core of the leisure sector, such as holidays or attractions. However, over time they have also adopted a wider range of leisure activities which have emerged as new sub-segments of the leisure sector, such as music and video streaming subscriptions. These have quickly become very habitual to consumers and thus represent a bigger part of their overall leisure time and expenditure.

We examine some of the key trends impacting the different parts of the UK leisure market. We also provide our thoughts on an outlook for the sector. In this report we draw on data from the Deloitte Consumer Tracker as well as our new survey on the leisure expenditure by UK consumers.

We hope this report provides insight to enhance your understanding of the opportunities and challenges in your industry, and welcome your feedback.



Simon Oaten

Partner,

Travel, Hospitality & Leisure, Deloitte LLP

At a glance

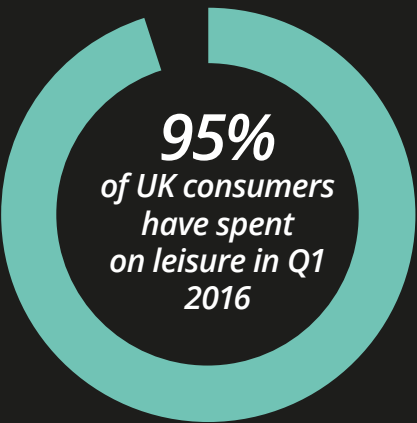
A more confident leisure consumer has emerged

Leisure spending has grown at a faster pace than total consumer expenditure



Less focus on owning and more on sharing

Making consumers more efficient with more to spend on leisure



	85%	on eating out
	77%	on in-home leisure
	75%	on culture and entertainment
	73%	on drinking in coffee shops
	70%	on drinking in pubs and bars

Leisure is all around

The industry is becoming a more diverse and dynamic market place

A new classification of leisure activities is emerging

Considered, occasional



Higher cost, occasional activities

Frequent, habitual



Lower cost, frequent activities

A growing but often underestimated sector



Worth **£117 billion** in revenue and growing



5% annual sector growth since 2010



Accounted for **7.4%** of UK GDP in 2014

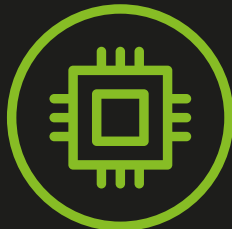


Attracting **one and a half times more** discretionary spend as retail



Growing at **nearly twice the speed** as the retail sector

The future of leisure is about



Focusing on innovation and technology



Keeping an eye on evolving business models



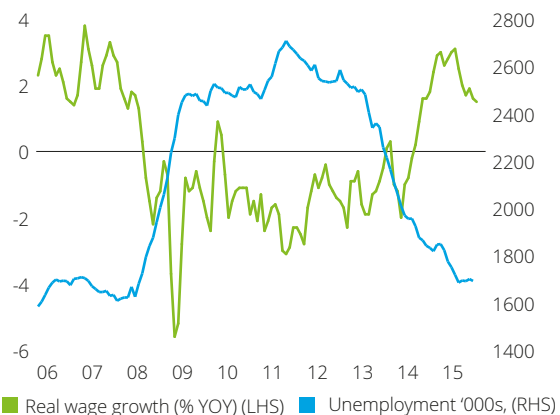
Bringing the retail and leisure experiences together

Monitoring the impact of Brexit on consumer discretionary spending and behaviour

The rise of the leisure consumer

The behaviour of the leisure consumer is a strong indicator of the prospects for the UK economy. In order to spend on leisure, consumers have to be confident and their personal financial circumstances have to offer them disposable income for non-essential activities.

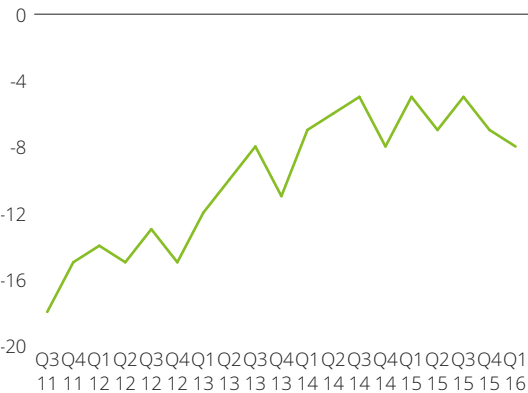
Chart 1. UK Real earnings growth and unemployment



Source: Office for National Statistics (ONS) data on Thomson Reuters Datastream

Chart 2. Deloitte consumer confidence

Net % of UK consumers who said their level of confidence has improved over the past three months



Source: Deloitte Consumer Tracker, Q1 2016

A more confident consumer

Falls in oil and commodity prices over the last two years have brought UK inflation down to near record lows.

This drop in inflation has coincided with a period of strong job growth, driving a pickup in real wages after the most prolonged squeeze on incomes since Victorian times.

As the key economic indicators for the consumer market have improved, the consumer mood has lifted. The Deloitte Consumer Tracker from Q1 2016 shows the long-term trend in UK consumer confidence is up despite experiencing fluctuation in the short term. Confidence is now ten points higher than in Q3 2011 when the Tracker began.

Consumers' confidence in their own financial situations now runs close to a 13-year high.

A key component in consumer confidence has been the improving sentiment around household disposable income. Compared with other areas of confidence, sentiment around disposable incomes has seen the fastest recovery since Q3 2011.

Despite a recent slowdown, retail sales continue to grow at a faster pace than their long-term average. Consumers also consider this to be a favourable environment for major purchases.

Chart 3. Consumer confidence in personal financial situation

GfK survey – financial situation over last 12 months



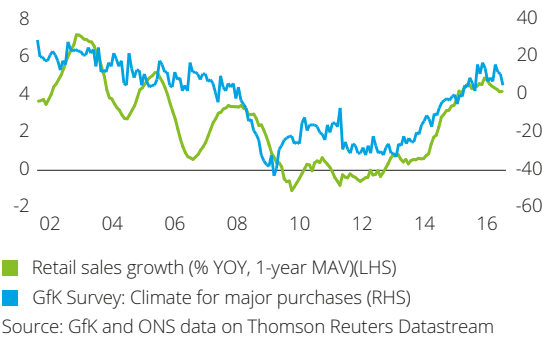
Source: GfK data on Thomson Reuters Datastream

Chart 4. Deloitte consumer confidence in disposable income

Net % of consumers who say their level of confidence has improved over the past three months



Chart 5. UK retail sales growth and climate for major purchases



Source: GfK and ONS data on Thomson Reuters Datastream

Chart 6. Category spending over the last three months

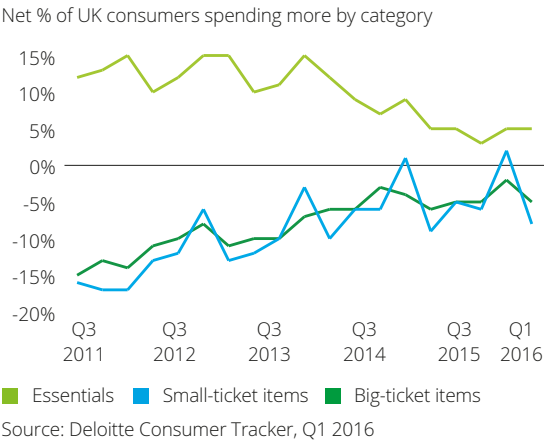
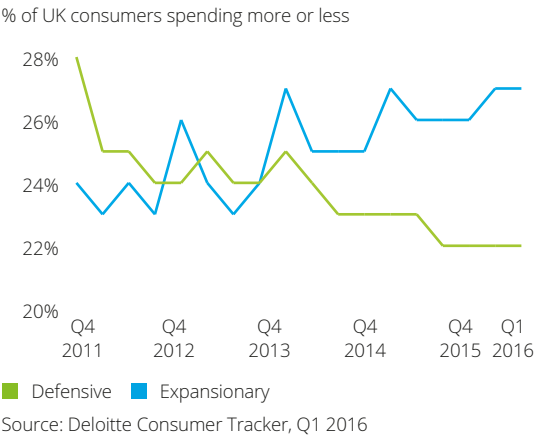


Chart 7. Expansionary and defensive spending behaviours



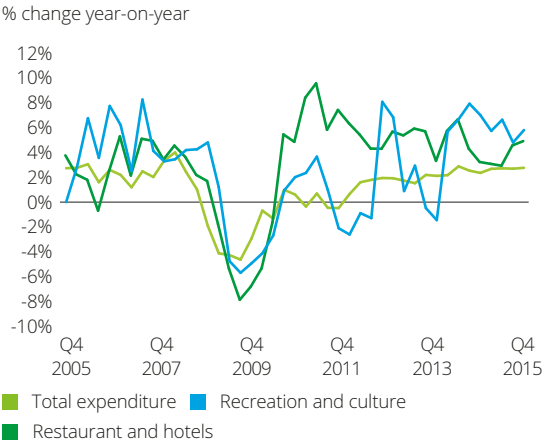
Spending shifting from needs to wants

Lower inflation has boosted consumers’ purchasing power. By keeping the price of everyday purchases low, they have been able to limit rises in spending on essentials, such as groceries. At the same time they have started to spend more on discretionary small and big ticket items, such as alcoholic beverages and holidays.

Consumers have also gradually moved away from the defensive purchasing behaviours adopted during the recession as a way of coping with pressures on their income. Compared to a year ago, in Q1 2016 fewer people reported spending less due to bargain hunting, trading down to cheaper brands or product lines, or simply not having the money to spend. Meanwhile, an increasing number of consumers are buying on impulse, suggesting conscious restrictions on discretionary spending are disappearing.

The leisure sector has benefitted from improving consumer sentiment and the tendency to shift spending from essentials to discretionary categories. In fact expenditure on leisure categories has grown at a faster rate than total expenditure by consumers. In Q4 2015, while total expenditure was up by 2.7 per cent, expenditure on hotels and restaurants grew by 4.9 per cent and recreation and culture increased by 5.8 per cent.

Chart 8. Consumer expenditure



Evolving consumer mindset: Sharing is caring

While the improvements in personal finances and confidence have been critical in providing consumers with the money and inclination to spend, there have been other factors that have influenced their decision to spend on leisure.

The consumer mindset has changed. Collaborative consumption models, where consumers share goods instead of directly owning them, have emerged over the last few years. Nesta estimates that in 2014 two-thirds of the UK population participated in collaborative consumption and a quarter did by using the internet.²

As consumers have become more aware of the sharing economy, they have started to rethink the need to spend money on owning goods. A survey on the motivations for participating in the sharing economy showed that for over a third of users, their motivation was philosophical, linked to helping others while one in four did it to promote sustainability.³

Consumers are now more comfortable with the idea of paying for access to goods and services, rather than buying to own. For instance, they might not need to own a car or a second car because they can be part of a car club that allows them to access one when they need it, they can share a ride with someone going to the same place or use a minicab app to find a car to bring them home from their grocery shopping trip.

They are able to now share a wider range of items, from designer wear and jewellery to holiday homes, movies, music and books. The need to own fewer goods as assets is enabling consumers to be more 'efficient' in their consumption. Sharing items, rather than owning them, means consumers can spend more money on leisure activities.

The collaborative economy, with its unconventional and disruptive business models, is also increasingly at the forefront of the leisure sector. Many of the collaborative consumption businesses, such as Airbnb, Deliveroo and Uber, target the leisure consumer. Using data from a study by Nesta around half of collaborative economy businesses in Europe are estimated to be operating in the leisure sector, when including the transport element.⁴ The spending power of the leisure consumer is therefore also spurring innovation in the sharing economy.

Living a full life

Consumers are increasingly looking to enrich their lives through experiences, aiming to make their everyday life more enjoyable and memorable. Leisure activities such as eating out, going to the cinema or visiting attractions are no longer just for the special occasions. Research by Mintel reveals that 78 per cent of consumers have eaten out with their family in the last 12 months for no particular reason while 82 per cent have visited attractions and 86 per cent have been to the cinema.⁵

Consumers seek some leisure activities also for the convenience that allows them to make more of their free time. Nine in ten consumers agreed that one of the things they enjoy the most about going out is that someone else prepares the food or drinks for them.⁶

"The need to own fewer goods as assets is enabling consumers to be more 'efficient' in their consumption. Sharing items, rather than owning them means consumers can spend more money on leisure activities."

See the bigger picture: Leisure is all around

With turnover of £117 billion the UK leisure sector is now a larger, more diverse and dynamic market place than before, and its value is often understated.

Leisure is branching out

Definitions for the term 'leisure' are often narrow and fail to appreciate fully the complex and broad nature of the sector. This also means that the importance of the UK leisure sector on the overall economy is often underestimated.

The leisure sector has dramatically evolved over the last decade. Increased consumer spending in the sector coupled with developments in technology have encouraged more innovation and new offerings. The recession led consumers to cut household spending and replace out-of-home activities with in-home leisure. Improved technology in the form of smart TVs and the emergence of TV and movie streaming services have encouraged consumers to enjoy leisure in the comfort of their own home. Similarly, wider adoption of devices such as smart phones and tablets, and the improved customer experiences online have enabled people to make more spontaneous decisions about booking restaurants and travel, as well as supported online leisure consumption, such as gambling or video streaming.

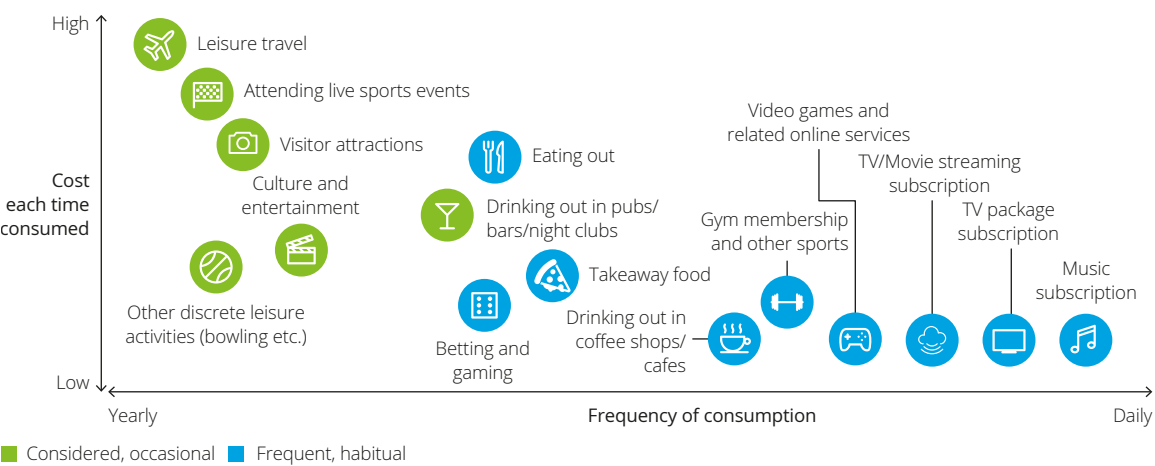
A new classification emerging?

When examining leisure activities through two different lenses, the typical frequency of activity and cost or expenditure per occasion, a new classification of leisure activities is emerging. In our view, leisure activities can now be divided into two categories: considered, occasional and frequent, habitual leisure activities.

The considered, occasional leisure activities are those traditionally at the heart of the leisure sector. These are activities that consumers typically associate with leisure time and include leisure travel, going to the cinema, theatre and bowling. Consumers would view some of these as special leisure activities; something they might need to save up for due to the higher one-off cost involved (e.g. holidays). Others are more affordable but often still perceived as treats, so spending on these tends to be irregular or less frequent (e.g. theatre or attractions).

The frequent, habitual leisure activities tend to exist more at the edges of the sector. Many have either emerged in the last decade or slowly evolved to be part of consumers' leisure spending. Spending on these activities tends to consist of small but frequent purchases and includes activities such as betting and gaming; TV, video game and music subscriptions or buying takeaway coffees and food.

Chart 9. Deloitte classification of leisure activities



These pastimes have gradually become an integral part of their leisure consumption. One driver of this trend has been the broader use of subscription-based models. While widely used in the gym sector for some time, the model has been adopted particularly in the leisure media sector, including music service subscriptions (e.g. Spotify) and video streaming (e.g. Netflix). The subscription models have encouraged consumers to spend small amounts at regular intervals. Once they have signed up, they tend to be less aware of the ongoing payments or are less inclined to stop the subscription as it has become engrained in their everyday life.

Other activities have become frequent and habitual due to wider changes in consumer behaviour. The market for gyms and sport has benefitted from consumers' increasing focus on health, wellbeing and appearance. In addition, the flurry of media attention around obesity and recent public sector campaigns have prompted consumers to get more active.

The proliferation of coffee shop chains has made it easy for consumers to use them for both social and professional meetings. The growing "on-the-go" culture has also directed consumer spending and time towards cafés.

Eating out has shifted more recently from the occasional to the frequent category. While previously it was more of a luxury or an occasional treat, the increasing competition, segmentation of the market to offer options for all budgets and changes in consumer culture have pushed it more towards the frequent activities. It is now increasingly common for consumers to substitute home cooking with eating out, especially when their budgets have more flexibility.

The size and shape of the UK leisure sector

Deloitte estimates the UK leisure sector to be worth over £117billion in revenue. This means the leisure sector accounted for 7.4 per cent of UK GDP in 2014, having grown at a compounded annual growth rate of five per cent since 2010.

To compare the scale of leisure spending, in 2014 consumers spent £373.2 billion in the retail sector, which had an annual growth of three per cent.

Chart 10. Estimated size of the UK Leisure sector

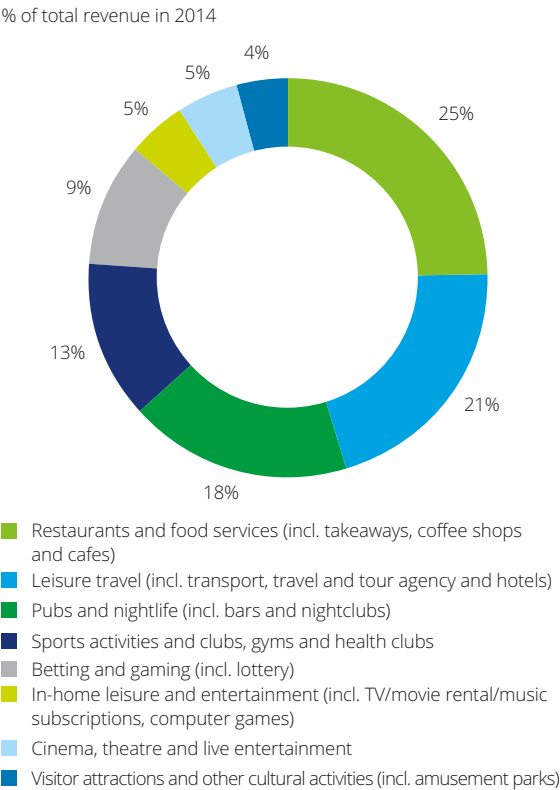
Sub-sector	Turnover (2010) £bn	Turnover (2014) £bn	CAGR Growth (4 year)
Restaurants and food services (incl. takeaways, coffee shops and cafes)	23.0	29.3	6.2%
Leisure travel (incl. transport, travel and tour agency and hotels) domestic and international spending by UK travellers in the UK	20.2	25.1	5.6%
Pubs and night life (incl. Bars/Nightclubs)	19.7	20.8	1.3%
Sports activities and clubs, gyms and health clubs	12.1	15.3	6.1%
Betting and gaming (incl. lottery)	8.4	11.2	7.4%
In-home leisure and entertainment (incl. TV/movie rental/music subscriptions, computer games)	5.3	5.8	2.5%
Cinema, theatre and live entertainment	4.8	5.8	4.6%
Visitor attractions and other cultural activities (incl. amusement parks)	3.0	4.2	8.4%
Total	96.6	117.4	5.0%

Sources: Annual Business Survey, ONS, 2015 and supplemented with data from British Film Institute, Entertainment Retailers Association, the UK Gambling Commission and Visit Britain⁷

Discretionary retail spending can be estimated to account for more than one-fifth of the total retail spending.⁸ This means the UK leisure sector is attracting more than one and half times as much discretionary spending as retail while growing nearly at twice the speed of the whole retail sector.

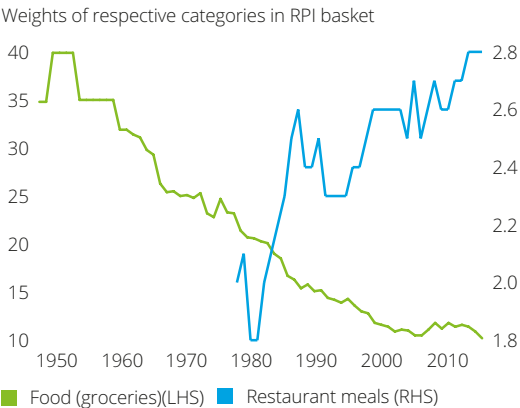
The restaurant and food services segments generate a quarter of the total leisure sector revenues while pubs and nightlife account for 18 per cent.

Chart 11. Relative size of the leisure sub-sectors



Source: Annual Business Survey, ONS, 2015 and supplemented with data from British Film Institute, Entertainment Retailers Association, the UK Gambling Commission and Visit Britain

Chart 12. Share of eating out and spending on food of total household spending



Source: ONS data on Datastream

These segments have seen secular growth over the last 30 years as technological change and rising agricultural productivity have made groceries cheaper and freed up incomes for discretionary spending.

Somewhat surprising, the eating out segment escaped the slowdown in consumer spending during the last recession and has achieved strong growth in the past few years. Sports and gym activities, covering thirteen per cent of total leisure sector revenues, have also experienced strong annual growth of 6.1 per cent of since 2010, helped by consumers paying closer attention to their health and wellbeing.

Leisure travel, the second biggest segment with 21 per cent of the leisure sector revenue, has grown by a 5.6 per cent during the same period, which is quite impressive given the number of terrorist attacks, geopolitical turmoil and high profile disasters affecting travel. Both domestic and outbound travel from the UK has been robust since 2014. The outbound visitor and spending figures for the 12 months to February 2016 showed growth of around ten per cent⁹ while domestic trips and spending were up nine per cent in the year to December 2015 compared to the same period in 2014.¹⁰

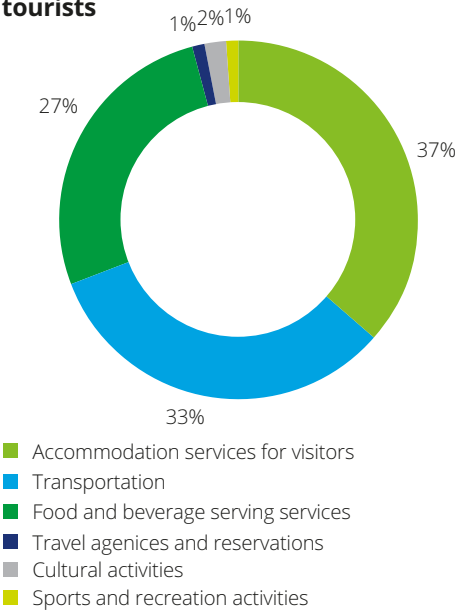
The UK leisure sector has proved to be relatively robust, weathering recent economic shocks, as UK consumers have chosen to prioritise their spending in this area. As a barometer of consumer confidence, reliant upon discretionary spending, it is now more important than ever that we understand and monitor the performance of the leisure sector.

Although the visitor attractions segment covers only four per cent of the total leisure sector revenues, it saw the fastest growth between 2010 and 2014. This is partially driven by the UK benefitting from notable inbound tourism spending, boosted by special events such as the London 2012 Olympics, the Glasgow Commonwealth Games, the Rugby World Cup and the Diamond Jubilee.

Foreign tourism supporting the UK leisure sector

In 2014, the UK received 22.3 million inbound visitors which was an increase of over six per cent on the previous year.¹¹ These visitors spent a total of £13.37billion during their stay which represents an average of £573 per night Tourism has grown at a faster rate than other industries since the recession and has been one of the UK’s main export earners.¹² A more detailed breakdown of inbound tourism spending data from 2011 and 2012 suggests that around 27 per cent of spending by foreign tourists has tended to flow to the leisure sector.¹³ The majority of such leisure spending is on travel and hospitality but the eating out, and pubs and nightlife also benefit considerably. The challenge for the leisure sector in attracting more tourism spending is to entice foreign visitors to other destinations outside London where the market continues to be highly competitive. Following the EU referendum foreign tourists may benefit from better value due to the fluctuations in exchange rates.

Chart 13. Spending on leisure by foreign tourists



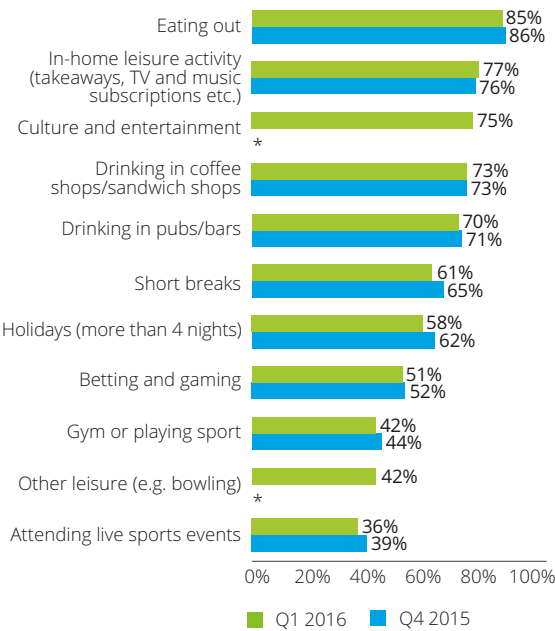
Source: ONS, 2012

We all want to have some fun

95 per cent of consumers spent on leisure in Q1 2016. The sub-sectors have dynamically evolved their offerings to match the varying consumer needs and budgets.

Chart 14. Consumer leisure spending

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



Base: Q1 2016 N=3132 and Q4 2015 N=3022 UK consumers, aged 18+.

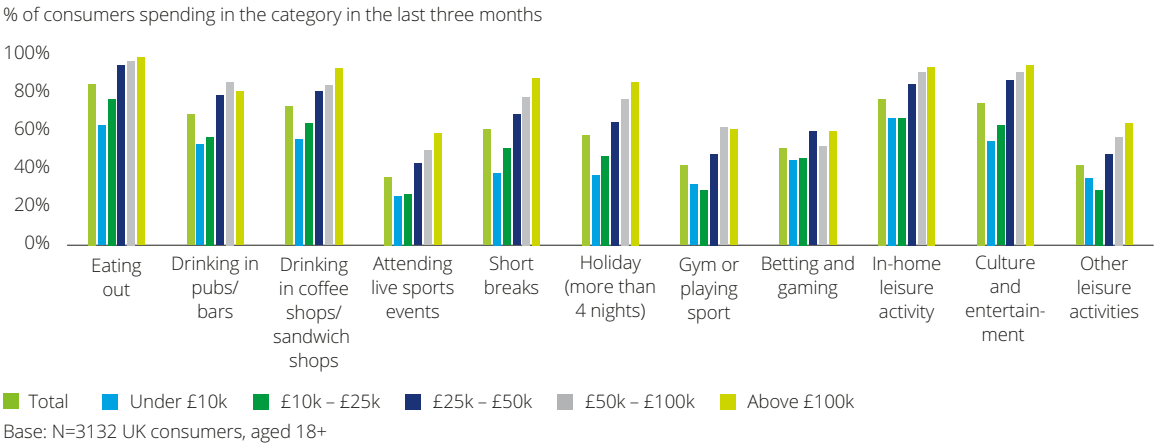
*Option amended in Q1 2016

Leisure is for all, not just for the young or the wealthy

Almost all of the consumers surveyed (95 per cent) spent money on some leisure activities in the first quarter of 2016. Eating out was the most popular activity with 85 per cent of consumers reporting some spending in this category. Compared to the last quarter of 2015, the proportion of people deciding to spend on leisure has changed little.

The level of household income plays a role in consumers’ propensity to spend on leisure. The wealthier consumers tend to spend in most leisure categories. However, over half of consumers in the lowest income groups also choose to spend money on activities such as eating or drinking out.

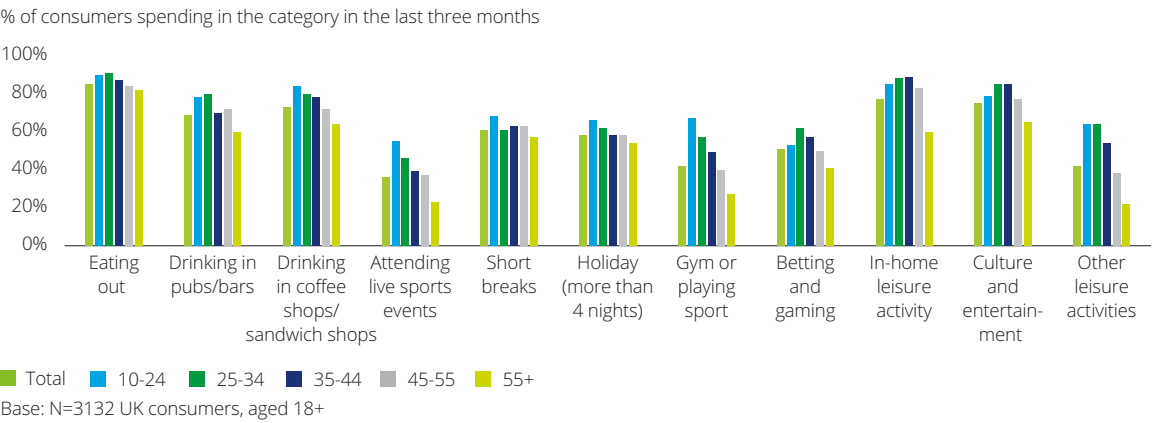
Chart 15. Consumer leisure spending by income group in Q1 2016



Leisure is not only for the young. While the Millennials, consumers aged 18-24, are the most likely to spend in categories such as gym and sports, short breaks or

drinking in coffee shops; the age groups in the middle are more active spenders on betting and gaming, eating out, drinking in pubs and bars, and in-home leisure.

Chart 16. Consumer leisure spending by age in Q1 2016

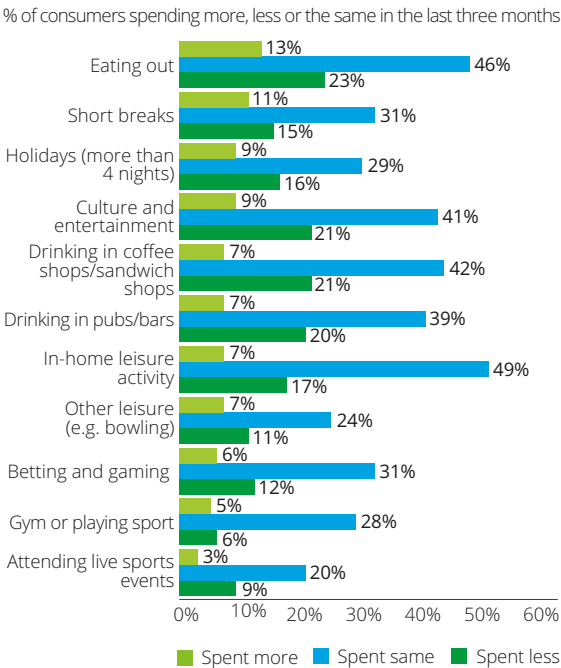


Stable leisure spending in 2016

Consumers have been spending largely in line with the budgets they had in the last three months of 2015 in categories such as eating out, in-home leisure, culture and entertainment, and drinking in coffee shops.

However significant negative net spending, the difference between those spending more and less, in these categories suggests that some consumers have reigned in on their expenditure in the first quarter following Christmas.

Chart 17. Consumer leisure spending by type of spending in Q1 2016

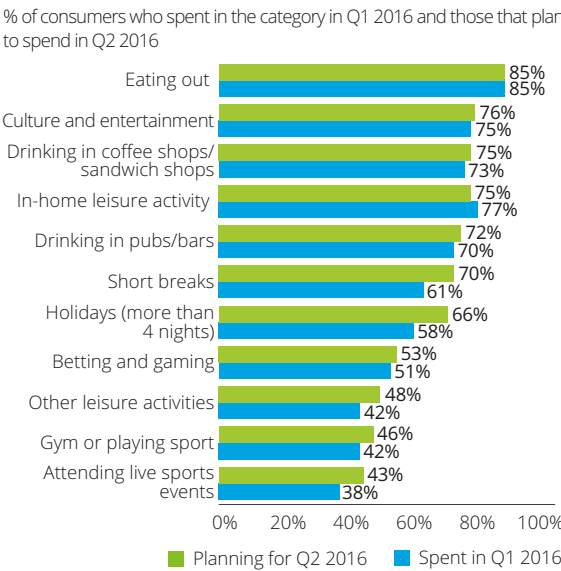


Base: 3132 UK consumers, aged 18+. Remaining proportion answered 'Don't know/'Not applicable'.

At the start of the second quarter of 2016, the outlook for the leisure sector was positive as consumers remained in a bullish mood. However, the results of the EU referendum and the general mood of uncertainty that it has created, will cast a cloud over the prospects for the sector in the short term. Large ticket foreign holidays may be affected most significantly due to the fluctuations in exchange rates. As a result, Summer 2016 could see a resurgence of the staycation.

While eating out is likely to remain the top category for spending, all considered, occasional leisure categories are likely to see more consumers making conscious decisions to spend in the second quarter. Leisure travel in particular is likely to see more consumers spending on holidays and short breaks in Q2 2016, while live sports events and other leisure activities could also see a lift in spending. In-home leisure is the only sector likely to see fewer people spending on it.

Chart 18. Consumers spending on leisure in Q2 2016



Base: 3132 UK consumers, aged 18+

The start of the holiday season is likely to attract increasing spending on leisure travel with 15 per cent of consumers planning to spend more while only 13 per cent are planning to spend less than in the first quarter.

For eating out, nearly half of consumers plan to stick to their current spending. However, with a negative net balance of -11 the sector will need to continue to focus on offering good deals to consumers to drive footfall.

The gym and sports sector is likely to see little difference in total spending as the proportion of consumers spending more and less are equal. Nonetheless, other frequent, habitual leisure categories might face challenges as an increasing number of consumers plan to spend less, rather than more.

The leisure consumer supporting the high street

The lines between the retail and leisure sectors have been blurring for a while and the high street has been a key component in that. As the retail sector has shifted from the traditional stores to more experiential formats, it has pushed consumers to think about their local high street as a place to enjoy their spare time.

A Deloitte report on the role of the high street examined the opportunities for transforming into a hub for leisure, a destination to experience and socialise. Over half of consumers surveyed (52 per cent) reported using their high street coffee shops while 43 per cent went to restaurants and 28 per cent to bars and clubs.¹⁴

Indeed the increasing leisure expenditure has attracted businesses such as coffee shops, restaurants and spas to the high street. In 2014, coffee shops emerged as the most popular independent store to open on high streets with a rise of 31 per cent over 12 months. Sandwich bars and beauty salons were also opening up on the high street more frequently than before.¹⁵

Trends in the sub-sectors

More reasons for meals out: Expanding the eating out offering

The eating out market has innovated considerably over the last decade, partially to stimulate demand and partially due to competitive pressures in the sector. The segment has worked hard to get their share of consumers' leisure spend by running extensive voucher schemes to increase frequency of visits, forming pop-up restaurants and broadening their takeaway offering in collaboration with online takeaway portals such as Deliveroo.

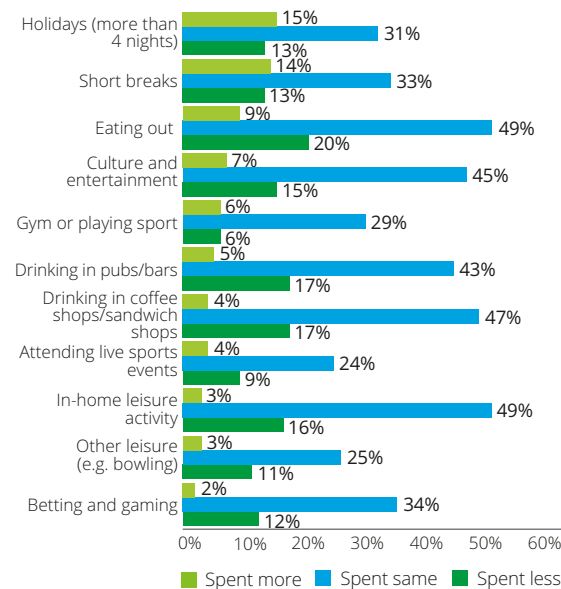
The sector has been particularly active in creating new mealtime offerings. Chain restaurants are now offering breakfasts, brunches and afternoon teas to entice consumers with the convenience element. Equally, café and lunch chains are experimenting with extended hours and alcohol licences while burger chains are transforming the fast food menu into a high-end dining experience.

The use of discount and voucher schemes for restaurants has recently declined¹⁶ as the sector has started to offer other types of promotions, and also the improving incomes have made consumers less sensitive to pricing. However, in a sign of consumers reviewing their expenditure nearly quarter of those surveyed said they spent less on meals out in Q1 2016 while one in five planned to spend less in Q2 2016 (see Charts 17 and 19).

The sector now faces the simultaneous pressures of rising operational costs, for instance following the changes to the national living wage, and finding sustainable models for offering consumers value for money.

Chart 19. Consumer leisure spending in Q2 2016 by type of spending

% of consumers spending more, less or the same than in the last three months



Base: 3132 UK consumers, aged 18+. Remaining proportion answered 'Not applicable'/'Don't know'.

“Despite the improving consumer sentiment, the in-home leisure market has continued to flourish. In-home leisure is the second most popular leisure category with 77 per cent of consumers having spent on it in Q1 2016.”

Right at home: in-home leisure flourishing

Despite the improving consumer sentiment, the in-home leisure market has continued to flourish. In-home leisure is the second most popular leisure category with 77 per cent of consumers having spent on it in Q1 2016, most in line with their previous spending.

The ability of the eating out market to capture consumers' discretionary spending has pushed the retail sector to compete harder in this area. Traditional retailers have introduced dine-at-home ready-prepared meal deals to bring the convenience element to the in-home leisure environment. Similarly, the subscription model based, cook-from-scratch meal pack delivery companies such as Gousto have highlighted the experience of home cooking together with the messaging around healthy eating to appeal to the leisure consumer.

Spending on in-home leisure media has been supported by a combination of broader high speed internet penetration, adoption of a wider range of smart devices and growth in online services. TV subscriptions now represent the majority of TV industry revenues while music subscriptions have seen the fastest growth in the recorded music business.¹⁷

Live entertainment and cinema boosting culture and entertainment sectors

Consumers are indeed looking for experiences: Three-quarters of UK consumers surveyed spent on culture and entertainment in the first quarter of 2016. According to Mintel, the live entertainment sector in particular has seen significant growth in the past five years due to artists placing greater emphasis on performing live over recordings.¹⁸

The cinema industry benefitted from over £1.1 billion in spending on tickets in 2015, 15 per cent more than in 2014.¹⁹ Recent blockbusters include Star Wars: The Force Awakens, the biggest film of all time with non-inflation adjusted UK box office sales of nearly £123 million, and other big successes such as Spectre and Jurassic World.²⁰

Such films highlight the industry's reliance on high quality, attention grabbing productions that draw consumers out of their homes. These characteristics are also critical to the future of the cinema industry given increasing competition from online streaming.

Focus on food: Pubs looking for growth

Going to the pub remains a favourite leisure activity for UK consumers. Over half of the surveyed consumers have gone to the pub for drinks or food in a given month²¹ and 70 per cent have spent on drinking in pubs and bars in Q1 2016 (see Chart 14).

However, as shown in Chart 10 growth in the sector has been minimal. Pub operators have been challenged by increased competition, consumers reducing their alcohol consumption and the increasing shift towards in-home alcohol consumption following the recession.

To compete more effectively the traditional operators have focused on developing a compelling food offering, while the craft beer movement has also offered consumers a new incentive to visit a pub. In addition, alcohol-free bars and clubs are developing as new niche segments.²²

The bets are on: More spontaneous betting and gaming online

Our research shows that half of the consumers surveyed (51 per cent) have spent on betting and gaming in the first three months of 2016. While the National Lottery is the biggest driver of spending in this segment, the migration of many betting and gambling activities online has made the segment more accessible to consumers.

Although most of the activity still takes place in the betting shops, the digital channel has enabled more spontaneous spending decisions which have particularly boosted growth in the gaming part of the sector.

Leisure travel: Favourite big ticket item

Holidays maintain a special place in the consumer's mind, notably among younger consumers. Millennials value travel highly, citing it in their top three life goals.²³ Deloitte Consumer Tracker data has shown that consumers have tried to protect their holiday budgets following the recession. Holiday expenditure was one of the discretionary categories that recovered the quickest since 2011.

In the first three months of 2016, which tends to be a quieter time for leisure travel, around two-fifths of UK consumers surveyed took a holiday of more than four nights and a similar proportion had a short break (see Chart 14).

With higher discretionary income, consumers are taking multiple trips a year. According to British Travel Awards Travel Vision data, three-quarters of UK holidaymakers plan to take two or more holidays in 2016.²⁴ Consumers are also opting for the convenience of booking flights and hotels in one place, rather than spending time searching for the lowest price for each component separately. While before price was the key determinant for choosing a travel company, now previous experience of using the same company is as important to consumers as price.

Although the sector continues to be vulnerable to external events; so far the sector has shown resilience and ability to recover quickly.

Greater focus on health driving gym and sports market

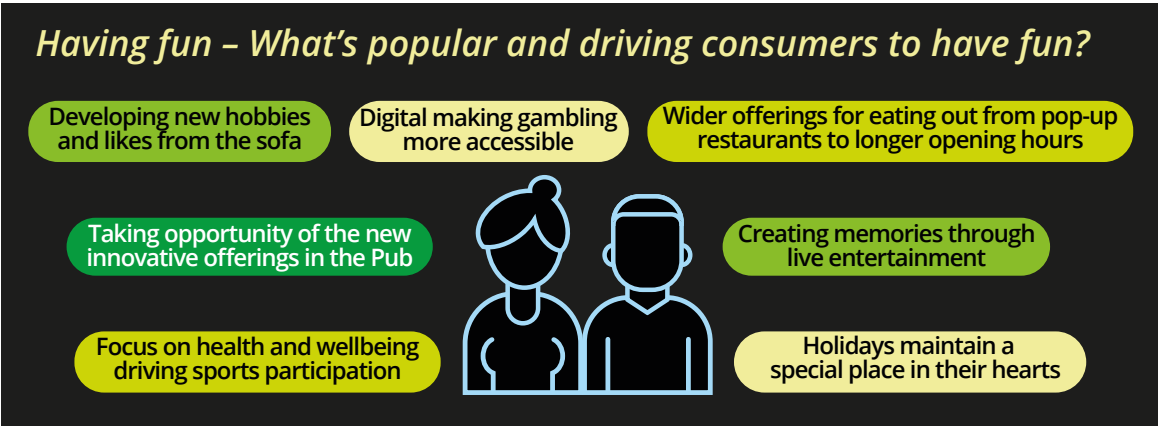
Sports participation increased by 1.65 million people between 2005 and 2015. The gym market in particular has thrived as over 6.8 million people report going to classes and doing gym sessions at least once a week.²⁵

Over two-fifths (42 per cent) of the consumers we surveyed claimed they spent money on gyms or other sports. Spending on UK gym membership rose by 44 per cent in 2015, driven in part by the emergence of the budget and pay-as-you-go gyms that have given consumers more options without tying them to expensive long-term contracts.²⁶ Increasing adoption of wearables and fitness apps has also increased consumers’ motivation to become more active.

Big events boosting spending on live sporting events

Our research shows that over a third of UK consumers (36 per cent) attended a live sport event in the first three months of 2016 with the level of spending similar to that in Q4 2015.

The sector, estimated to be worth over £20 billion, has continued to attract fans to reoccurring events, such as Wimbledon. However, a few special events such as the 2015 Rugby World Cup hosted by England have boosted the sector. In addition to being one of the most profitable events in sporting history, it also had a notable impact on other leisure sectors such as travel and accommodation.²⁷



Future direction for leisure

The three key success factors for UK leisure businesses are innovation and technology, monitoring evolving business models and using the consumer as the advocate for the business. The one significant cloud is the result of the EU referendum.

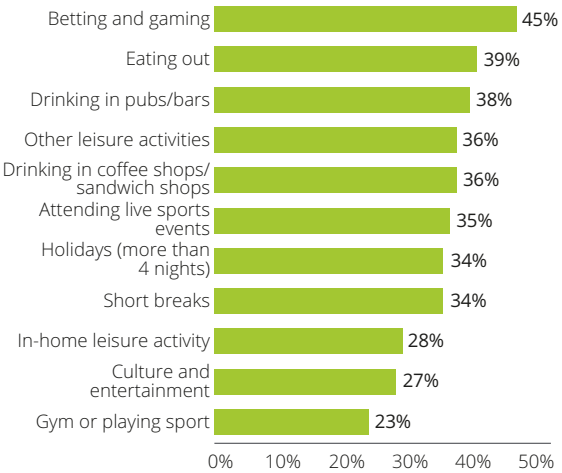
Cash strapped consumers to look for quick savings in reducing leisure spend

While leisure sector revenues have showed growth in the past few years, the key question for the sector is how robust it is likely to be in the future. In the event of any changes to consumers’ finances, such as a rise in inflation or interest rates or further wage stagnation, are there parts of the leisure sector that could suffer?

Our research suggests that if faced with less money consumers would be likely to reduce spending on those frequent, habitual activities where they regularly tend to spend larger amounts. According to consumers, when faced with budget constraints they would cut betting and gaming, eating and drinking out first.

Chart 20. The top three leisure activities to be cut when faced with less money

% of consumers who plan to spend in the category in Q2 2016 and rate the activity in the top three to cut out if faced with less money



Base: 3132 UK consumers, aged 18+, who spend in the category

According to Mintel, over half of consumers have eaten at a restaurant or been to a pub for drinks once or more in the last month and two-fifths have spent between £20 and £40 pounds on their last visit.²⁸ Cutting out such expenditures would enable consumers to see immediate savings.

However, given the habitual nature of some of the activities, they might find it difficult to cut leisure spending. To reduce the total amount they spend on leisure consumers could reduce the amount they spend per occasion, or shift spending from one leisure category to another that is more affordable. For instance, more expensive meals-out could be replaced with ‘special menus’ offered by restaurants or perhaps take outs. Similarly, cinema trips could be replaced with more in-home leisure.

Thus the leisure sector on the whole might be fairly resilient, while the sub-sectors would be more impacted by changes in consumers’ finances.

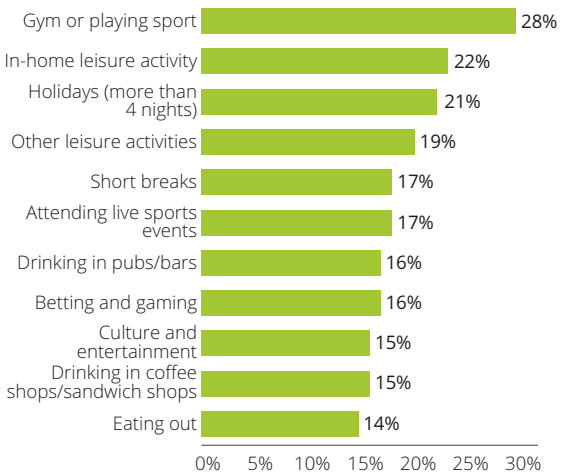
Gym memberships and in-home leisure are likely to be among the more robust spending categories, partially due to the subscription or contract models used, but also because the habitual nature of that spending makes it difficult for consumers to realise the total amount they have spent.

The considered, occasional leisure activities, such as leisure travel, including holidays are also likely to be among the later categories to see a spending drop as many consumers feel holidays are now essential for them.

“Gym memberships and in-home leisure are likely to be among the more robust spending categories, partially due to the subscription or contract models used, but also because the habitual nature of that spending makes it difficult for consumers to realise the total amount they have spent.”

Chart 21. The bottom three leisure activities to be cut when faced with less money

% of consumers who plan to spend in the category in Q2 2016 and rate the activity in the bottom three to cut out if faced with less money



Base: 3132 UK consumers, aged 18+, who spend in the category

The impact of Brexit on the UK leisure sector

The recent referendum, which resulted in a vote to leave the EU, has raised levels of uncertainty regarding the long-term impact of an exit. In the short term, this could translate into a tougher trading period for the leisure sector.

The immediate reaction from financial markets saw the value of sterling and the FTSE index fall. If the value of sterling remains at this low level with the FTSE than recovering this will lead to imports becoming more expensive and significant inflation. The rising cost of imported goods is likely to eat into disposable incomes which could have an impact on the leisure sector, which is highly dependent on discretionary spending.

For leisure businesses that import raw materials the costs will rise. The food services and restaurants sectors will experience a rise in operational costs in the short term. Similarly, as travel to Europe becomes relatively more costly bookings could suffer, although this may in turn drive increased demand domestically. Ultimately consumer confidence will be the key sensitivity.

In the longer term the impact of Brexit will largely depend on the terms of the exit. While it might be difficult to foresee what decisions will be reached, leisure sector businesses should carefully analyse the threats and opportunities that the exit could bring, across their consumers, employees and investors and formulate a response.

The future of leisure is... ...full of innovation

Technological changes and innovation have impacted most parts the leisure sector. In some cases they have completely transformed the way the sector operate.

For instance in the travel sector, technology has disrupted existing companies and business models in a series of 'waves'. In the first instance, online travel agents (OTAs) took the existing travel and hospitality companies by surprise. Their arrival resulted in a significant shift in consumer behaviour, from using the traditional travel agent to the online environment. The OTAs have since been challenged by the emergence of metasearch providers and aggregator sites. Most recently, sharing economy businesses have challenged the sector yet again by offering consumers a product that is different but appealing merely by using technology as a facilitator.

We believe technological change will continue to drive innovation in the leisure sector in the medium to long term. This is likely to impact all parts of the sector and affect all elements of the businesses, from the product to distribution and communication with consumers. In the future, businesses will need to be proactive in seeking

new technologies and applying them in innovative ways to drive efficiency, develop insight on their customers and distinguish their products and services.

With new technologies emerging, business models will also continue to evolve and existing businesses will need to adapt quickly to survive.

...serving the informed and empowered consumer

In the Deloitte Consumer Review on the growing power of consumers we highlighted how digital disruption has increased transparency. It has provided consumers with more information in their decision-making process as they can now easily compare products and services and share experiences with their peers through review websites and social media. This has shifted the power in the relationship from the businesses towards the consumer.²⁹

For consumers, good service and positive interaction have become a necessity, something they demand from all leisure businesses. Many consumers also want businesses to tailor their products and services to their personal preferences.³⁰

As the battle for the leisure spending grows, the key to success will be in offering exceptional leisure experiences and positive surprises. This is likely to require more investment in knowing and understanding their customer, for instance through analytics.

However, the digital channel is often fragmented, with consumers using multiple devices and websites in their purchasing cycle. A company is limited in its ability to collect a rich set of data that reflects the complexities of such a process. Therefore, businesses should form wider alliances and partnerships to piece that information together and collectively serve their customers more effectively.

...bringing the retail and leisure experiences closer together

The blurring of boundaries between retail and leisure is likely to continue. While shopping has become a leisure activity in itself, the introduction of experiential retail formats and the colocation of retail and leisure companies both on local high streets and in out-of-town shopping centres have driven the two sectors closer together.

As retailers seek further growth opportunities in exploiting consumers' 'soft spot' for leisure, businesses in the leisure sector can also benefit from proactively seeking partnerships and opportunities to collaborate with retailers.

Leisure sector business imperatives

In our view leisure businesses should consider the following four actions to thrive in the longer term:

1. Embrace technological change

The speed of technological change is likely to accelerate and no business in the leisure sector can afford to stay the way they are. Those that seek to innovate or invest in applying different or nascent technologies to deliver what consumers want in new ways are likely to gain an edge over the competition.

2. Monitor evolving business models

The disruptive technologies are likely to challenge existing business models. In a technology-driven marketplace, businesses need to adapt quickly and offer

consumers what they currently expect. The ability to develop new services fast or change the way they are distributed is critical. Simultaneously, leisure businesses have to have flexible structures and practices so that if demands on the business suddenly change, they can quickly deploy the necessary resources, such as multi-skilled staff or new investment, to the growth areas.

3. Make the customer your advocate

The tendency for consumers to want to own goods as assets is reducing. As they share more and own less, their consumption becomes more 'efficient,' leaving them with more money to spend on leisure experiences. They are also likely to value customer service more highly as they focus on enjoying their spare time. This means consumers have the potential both to help and hinder leisure businesses. The old segmentations models are too crude to understand the needs and wants of customers thoroughly. The key is to develop a nuanced view of how to positively surprise the consumer in a way that makes them promote the business on your behalf.

4. Monitor impact of Brexit

The impact of Brexit remains uncertain and will bring both challenges and opportunities for the leisure sector. Across stakeholder, consumers, employees and investors, the change in our political and economic landscape will be felt. The leisure consumer's confidence will be both a barometer for our economy and the outlook for the sector.

KEY SUCCESS FACTORS FOR BUSINESSES IN THE UK LEISURE SECTOR:



Focus on innovation and technology



Keep an eye on evolving business models



Use the consumer as an advocate for the business



Monitor impact of Brexit and consumer reaction on discretionary spending

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