



Experiences With Character: The New Leisure Economy

Disposable income growth is driving healthy expansion in leisure spend throughout the developed world.

Recreation spending in the U.S. increased by 24%¹ in the five years leading up to 2017, while U.K. expenditure on leisure activities was up 17% in the five years before 2018.² In developing markets, growth rates are significantly higher as consumer incomes rise and available free time increases. Nowhere is this more prominent than in China, where the travel and entertainment share-of-wallet doubled from 5.5% to 11% between 2011 and 2017.³

The leisure sector is generally considered to include travel, entertainment, sport and recreation, and restaurant/bar spend. It is highly discretionary, and evolves constantly to meet changes in consumer behaviors and tastes. Out-of-home entertainment, health and wellness, and travel are notable areas of current spend growth. Leisure choices are increasingly focused on memorable experiences and building a personal narrative.

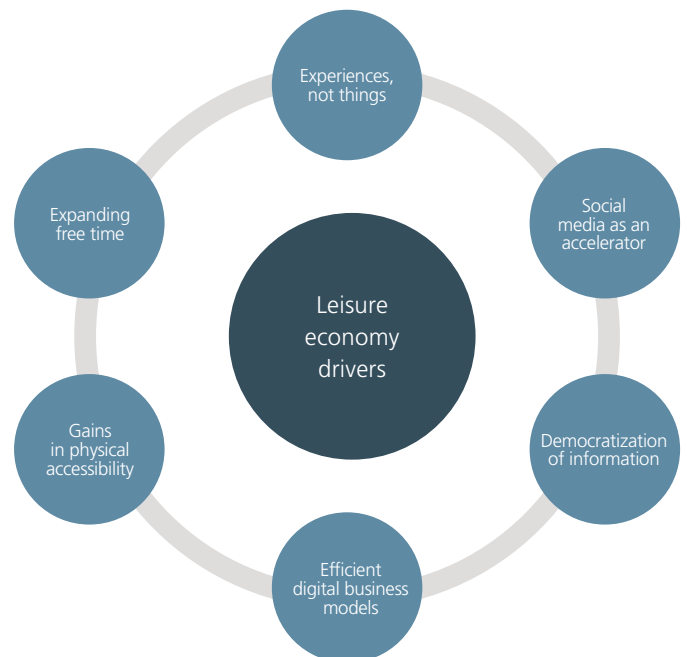
In this *Executive Insights*, L.E.K. Consulting examines the health and outlook of the new leisure economy through six macro drivers (see Figure 1), and explains the resulting investment themes.

1. Experiences, not things

Material goods such as consumer durables and clothing have become cheaper and much more globally available, often purchased online with free shipping. The decline in scarcity has increased the disposability of many goods and reduced the satisfaction attached to shopping for more “things.”

As a result, consumers are shifting to experiences to fill the gap. When combined with smartphone photography and social media posts, experiences become “social assets” and can generate social status and envy in the same way that tangible products such as new jewelry did in the past.

Figure 1
Six macro drivers



Source: L.E.K. analysis and research

Experiences With Character: The New Leisure Economy was written by **David Bishop, Stuart Westmore, Geoff Parkin** and **Fadi Chebli**, Partners at L.E.K. Consulting. David and Fadi are based in Paris, Stuart is based in Sydney and Geoff is based in London.

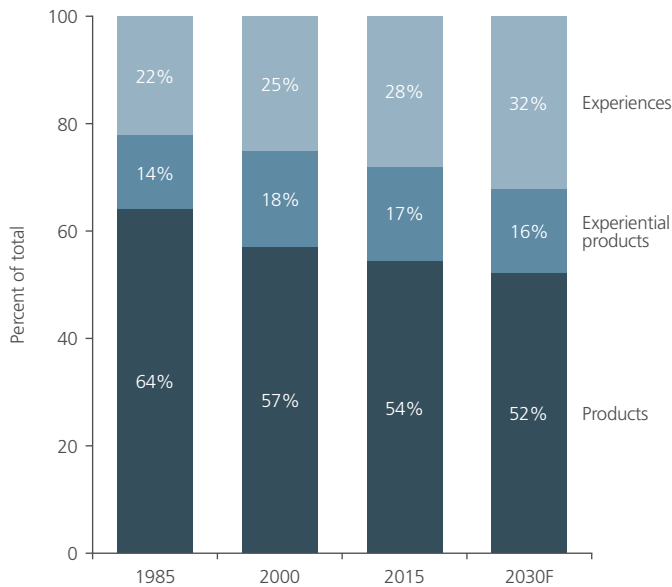
For more information, please contact consumerproducts@lek.com.



Executive Insights

Data from the U.S. succinctly captures this shift to experiential spending (see Figure 2). Similarly, research by Eventbrite shows that 78% of American millennials would now choose a desirable experience over a desirable product.

Figure 2
Discretionary expenditure in the U.S. by category



Source: Bureau of Economic Analysis

2. Social media as an accelerator

Many consumers now use social networks as a primary means of communicating with friends and community. Despite its recent PR challenges, Facebook had 2.32 billion active users at the end of 2018. For many, social “feeds” have become a carefully curated outbound narrative, used to project a positive self-image to the world.

Experiences that are desirable to others, such as adventure travel or festival attendance, or are considered socially “worthy” (e.g., participation in causes or fitness) have become valuable social currency. Ongoing self-comparison of one’s life with the lives of others motivates vibrant leisure diets and wellness activities to relieve social pressure, and 40% of U.K. millennials now prioritize “Instagrammability” in their holiday destination choices.⁴

3. Democratization of information

Also underpinning the maturation of the leisure economy is the widespread access to detailed information and reviews, which greatly reduces consumer risk and expands the scope of consideration sets.

Leading provider TripAdvisor offers more than 730 million reviews of over 8 million hotels, restaurants, vacation homes and attractions, and hosts more than 160 million traveler photos.⁵

Within categories, niche information services abound. In air travel, services such as ExpertFlyer give consumers real-time access to flight load factors, allowing them to identify empty seats and easy upgrades. There are also websites such as SeatGuru, which has reviews of specific seats across airlines, and The Points Guy, which provides tips on frequent flyer points.

4. Efficient digital business models

Beyond information asymmetry, digital technology has also removed many of the inefficiencies that previously hampered the leisure economy. Improvements in search functionality mean that consumers can quickly locate desired experiences, and advancements in digital advertising have allowed for efficient, narrow targeting of relevant leisure products. Self-booking and payment technology is also increasingly seamless — rapidly making physical storefronts redundant. Furthermore, stranded inventory for planes, cruises, concerts, hotels and such can be more readily cleared.

These efficiency gains are fostering innovation and contributing to the rise of more tailored offerings: Holiday travel offers and channels are increasingly specialized (e.g., senior travel, adventure travel, gift box holidays, bespoke travel), niche bands and festivals are thriving, and new fitness center concepts are launched every month.

5. Gains in physical accessibility

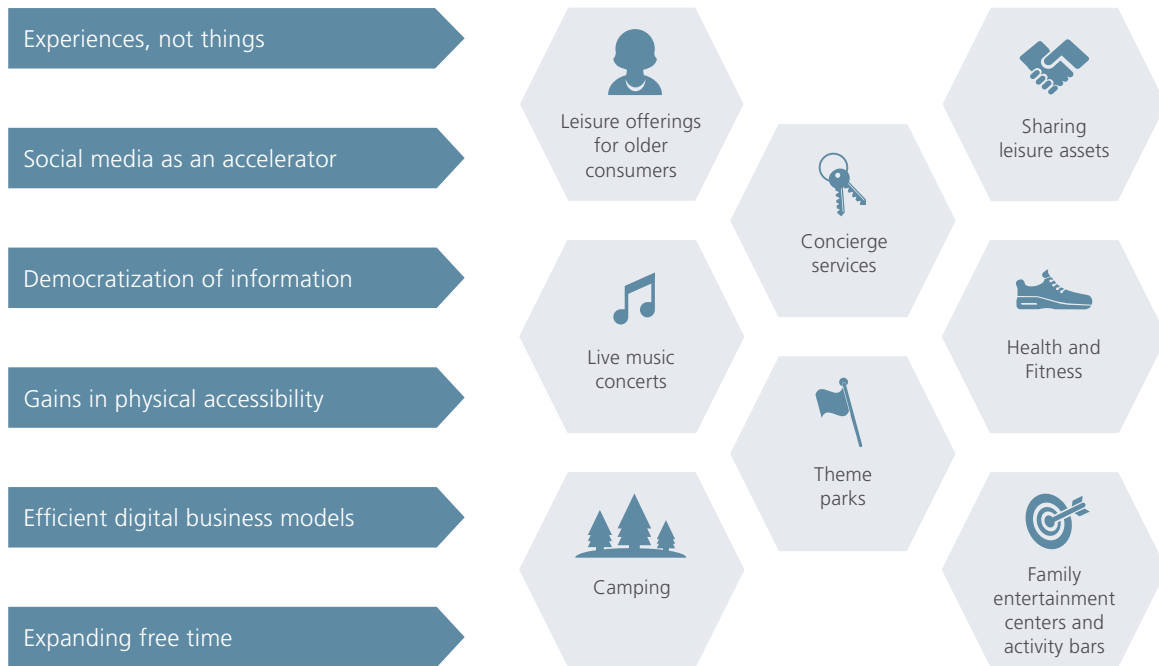
From a physical standpoint, improving transport networks, air access and visa flexibility mean leisure options are increasingly global. Cheap, abundant air travel makes it possible to spend holiday weekends on a different continent, and makes bucket-list and gap-year travel increasingly expansive. It also means that sporting events and festivals can pull from a much wider pool of customers, and local tourism can draw from more markets.

Furthermore, low-cost and increasingly high-fidelity mobile networks allow consumers to remain in constant contact and to post rich media content freely. Global standard attractions (Disneyland, the Eiffel Tower, etc.) are in high demand, and tourism is a desirable export category in almost every market (including North Korea), driving steady advances in visa access.

6. Expanding free time

The retirement of baby boomers is creating millions of consumers who have much more time and the means to enjoy it, including more cash and better health than any previous retiree cohort. This cohort — in stark contrast to their parents — has considerable discretionary wealth, views retirement as a positive lifestyle choice and has many active years ahead.

Figure 3
Linked investment themes



Source: L.E.K. analysis and research

Among millennials, workplace productivity improvements are continuing the slow reduction in length of the average full-time workweek, eking out precious new hours every year. Furthermore, the transition to the (generally time-poor) family life stage is being delayed as consumers work through an abundance of choice, enjoy the relaxing of past constraints (including increased female independence, greater life expectancy and improvements in fertility medicine), and struggle with housing affordability. Although property markets haven't allowed the younger generation to form wealth equivalent to their parents', they have ample disposable income — within 10%-15% of Gen X in many Western markets — to spend on their leisure time.

Leisure investment themes

L.E.K. observes a range of leisure investment themes (see Figure 3), which are supported by the six macro drivers. Each of these provides opportunities to the considered investor.

Live music concerts

As music royalty streams shrink and consumers seek out authentic, sharable experiences, live events have become increasingly important to the relationships (and revenue streams) between artists and fans.

Recent growth is evident. In the U.K., live music attendance was up 17% year on year in 2017, with music tourism spending growing by

19% over the same period (to £2.5 billion);⁶ in the U.S., consumer spending on concerts grew by around 90% between 2010 and 2017.⁷ The world's largest recurring music festival, Coachella, grossed \$114 million in 2017, up 21% year on year, and global festival patronage has grown to an estimated 320 million people.⁸

This shift is in part due to live event leaders AEG and Live Nation actively acquiring and corporatizing music festivals, shifting them from risky, weather-dependent offers to sustainable commercial products.

Camping

Camping is a great fit with the needs of the modern leisure economy consumer. Affordable, authentic and with high natural amenity, this activity is extremely shareable and offers great wellness potential. For this reason, it has become a popular investment class.

Innovation and premiumization in camping accommodations and equipment (think "glamping," treehouses and cabins) are developing rapidly and helping broaden the base. This touches many classes of assets. For example:

- European sales volumes of touring caravans and RVs were up 12% in 2017 (YOY)⁹

Executive Insights

- In the five years to 2017, U.S. camping equipment sales grew by approximately 40%¹⁰
- In 2017, overnight stays at European camping grounds grew to 375 million, across more than 25,000 locations¹¹

Dozens of European camping parks, holiday villages and vehicle manufacturers have taken private equity investment in the past few years.

Theme parks

Theme parks are also benefiting from rising incomes and the pivot to experience. According to the International Association of Amusement Parks and Attractions, global theme park spending grew by over 5% in 2017,¹² and attendance at the world's top 10 theme park groups gained 8.6% in 2017, to reach 475 million visits.¹³

Growth in the Asian market is particularly strong. Three of the top 10 global groups are Chinese, and China contributes around 25% of major park revenue. Western brands are also participating; attendance at Shanghai Disneyland reached 11 million in 2017, and Merlin Entertainments recently opened Peppa Pig World (also in Shanghai), and has also committed to its first Asian Lego world, in South Korea.

Family entertainment centers and activity bars

As the role of specialty retail in shopping precincts declines, property owners are using experience to help solidify, and even rebuild, visitation. Recent shopping mall developments have lifted the space allocated to hospitality and experience from the traditional levels of 10%-20% to 30%-40%.

Family entertainment centers, such as arcades, bowling and soft-play, lend themselves to shopping trips with kids, and are a bright spot of growth in the retail sector.

In the adult hospitality space, the search for new experiences and social trends away from drinking-focused nights out is stimulating a proliferation of activity-led food and beverage concepts, combining a premium pub offer with group activities like bowling, mini-golf and escape rooms.

Health and fitness

Social media, the quest for experience, rising consumer focus on health and wellness, and rapid innovation in offers have driven fast growth in fitness club memberships across the Western world.

Membership penetration in the U.S. is now around 19% of the population and continues to expand, while penetration in both Sweden and Norway exceeds 20%. Growth in total memberships across the E.U. was estimated at 4% in 2017,¹⁴ continuing a positive trend of more than a decade.

New budget banners led the first section of this growth wave, greatly lowering monthly entry costs, increasing center numbers

and expanding the addressable base of consumers. Further innovation in premium formats and offers has created a far more segmented and competitive sector.

Sharing leisure assets

New platforms are allowing consumers to share (and access) a wider variety of personal leisure assets, including holiday homes, campervans/RVs and local experiences. Vacation rental specialist HomeAway claims to offer more than 2 million unique places to stay,¹⁵ while Airbnb is expected to generate 150 million room nights in the U.S. alone in 2019.¹⁶ Another example is the private jet sharing business JetSmarter, which sells space on more than 300 flights a week and reported triple-digit growth in 2018 seat bookings.¹⁷

Leisure offerings for older consumers

The retiring baby boomer generation presents a vast, wealthy consumer segment, with specific needs that can prove extremely lucrative. Focused "silver" segments are developing in a range of categories.

In live music, heritage acts can tour forever, at increasingly premium venues and price points — with brand loyalty so robust, it can even outlive the acts' most famous founding members.

In tourism, high-street travel agents are holding up as a trusted intermediary for older travelers, while several businesses are achieving success with focused online holiday offers and well-suited cruising products (e.g., Saga, Riviera).

Concierge services

Premium facilitators are another fast-growing area of the leisure economy.

Sightseeing tour operators like BigBus and City Wonders are growing quickly. As tourism congestion around key attractions worsens, premium "skip the queue" services are becoming a growing part of their proposition.

Online restaurant booking services like TheFork (LaFourchette) and OpenTable have quickly developed into a ubiquitous part of the hospitality marketplace. The secondary ticket marketplace also continues to expand, with consumers increasingly willing to pay for flexibility, benefiting businesses like eBay's StubHub and Swiss-based Viagogo.

Finally, bespoke travel agency services (like Voyageurs du Monde) are another fast-growing area of the leisure economy, providing authentic curated experiences and risk management for the cash-rich/time-poor.

Conclusion

The new leisure economy is rapidly developing as people of all ages pour discretionary money and time into the enrichment of their human experience. Though consumers are increasingly spoiled for

Executive Insights

choice, the desire for novelty and originality keeps them open to new offers — particularly those that look great in a selfie.

New business models are constantly emerging as entrepreneurs look to ride the key trends within the market, creating a dynamic, exciting environment for investment. Given the strong cash flows, reasonable margins and limited fixed-capital requirements that characterize many businesses in the leisure sector, those that strike a chord among consumers and reach a level of scale can expect to enjoy strong support.

Endnotes

¹ [BEA National Income and Product Accounts](#)

² [Mintel](#)

³ [Credit Suisse](#)

⁴ [Schofields Insurance](#)

⁵ [TripAdvisor Investor Presentation, 2019](#)

⁶ [U.K. Music](#)

⁷ [Digital Music News](#)

⁸ [NOAH Advisors](#)

⁹ [Camping.BG](#)

¹⁰ [Statista](#)

¹¹ [European Caravan Federation](#)

¹² [Forbes](#)

¹³ [Themed Entertainment Association](#)

¹⁴ [Deloitte European Health & Fitness Market Report 2018](#)

¹⁵ [Vrbo, press release](#)

¹⁶ [Skift](#)

¹⁷ [Cision PR Newswire](#)

About the Authors:



David Bishop is a Partner in L.E.K.'s Paris office. He has more than 15 years of experience in strategy consulting. David joined L.E.K. in 2004 and since then he has provided strategic advice to a wide range of leading companies in the telecommunications, sports and leisure and retail industries. David holds a Bachelor of Commerce with Honors in Economics and Management Accounting from the University of Auckland.



Stuart Westmore is a Partner in L.E.K.'s Melbourne office and leads the Australian Mergers & Acquisitions and Retail and Consumer Products practices. Stuart works extensively in the area of mergers & acquisitions, on both the purchaser and vendor side of transactions, and has advised a diverse range of corporations, domestic Australian PE teams and Asia-Pacific and Global PE clients on acquisition due diligence. He holds an MBA from Melbourne Business School.



Geoff Parkin is a Partner in L.E.K.'s London office. He has been with L.E.K. for more than 20 years and is a consumer markets expert. Geoff has broad experience assisting U.K. and international corporate and private equity clients with mission critical strategic issues, commercial performance improvement plans and due diligence assignments. Geoff graduated with a Bachelor of Science degree in Management Sciences from U.M.I.S.T. and studied Corporate Finance at London Business School.



Fadi Chebli is a Partner in L.E.K.'s Paris office and is a member of the European Retail and Consumer Products practice. He has nearly 20 years of international experience, advising clients on corporate strategy, digital strategy, performance improvement, and business transformation within the broader retail and consumer products sector. He advises clients in several European countries as well as in the Middle East. Fadi graduated from Sciences-Po Toulouse, Toulouse Business School, and is a CFA charter holder.

About L.E.K. Consulting

L.E.K. Consulting is a global management consulting firm that uses deep industry expertise and rigorous analysis to help business leaders achieve practical results with real impact. We are uncompromising in our approach to helping clients consistently make better decisions, deliver improved business performance and create greater shareholder returns. The firm advises and supports global companies that are leaders in their industries — including the largest private and public sector organizations, private equity firms and emerging entrepreneurial businesses. Founded in 1983, L.E.K. employs more than 1,400 professionals across the Americas, Asia-Pacific and Europe. For more information, go to www.lek.com.

