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COVID-19: UK industry focus

Where next for travel and leisure?



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Where we are today

COVID-19 is the most significant challenge the travel and leisure sector has faced. Never before have we seen these markets almost entirely unable to operate. While the initial focus has been on looking after staff and customers and remaining solvent, there's a pressing urgency to think about the future.



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Government restrictions on movement and business operations have forced the industry into hibernation. Significant travel limitations across the globe have had an unprecedented impact on the hospitality and tourism sectors. There are also severe restrictions on the use of leisure space, with gyms, cinemas and other leisure venues unable to open. Some restaurants, pubs and coffee shops are offering a limited service for takeaway or delivery but the majority remain closed.

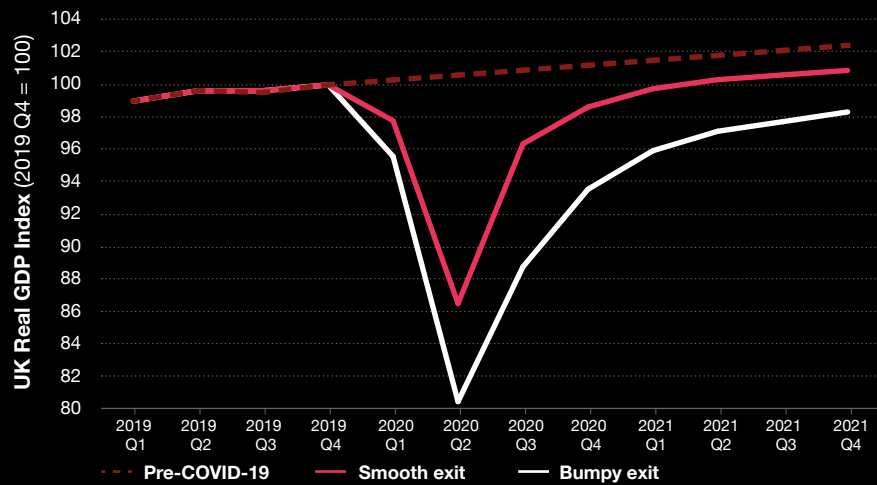
The virus has had an immediate and significant impact on the UK economy. We currently project GDP to decline by around -5% to -10% compared to 2019. The short-term impact is likely to be significant: in the ‘smooth exit’ and ‘bumpy exit’ scenarios (see page 5), overall UK GDP could contract by around 12% to 16% in Q2 2020.

UK travel and leisure has suffered significantly as consumers reduce spending and operators remain closed. We predict that the variation in gross value added (GVA) for the sector will range from -14% to -32% in 2020, depending on the length of the lockdown; a greater impact than in most other sectors.

16%

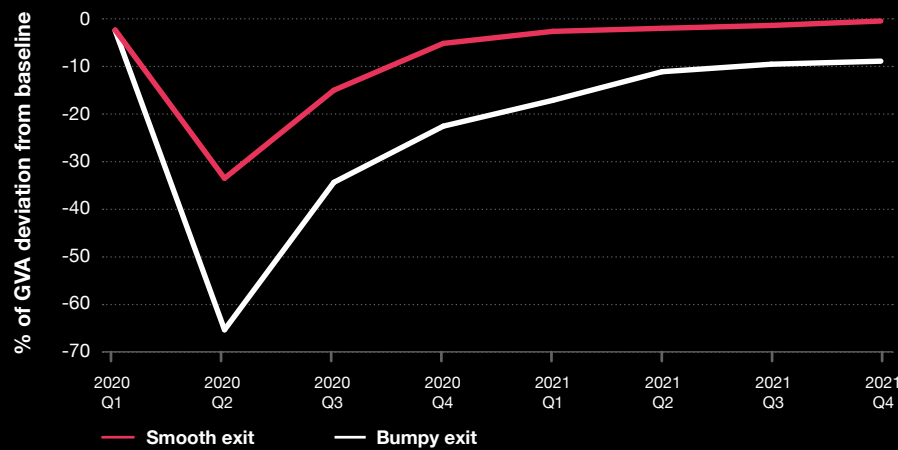
potential contraction
in UK GDP second
quarter of the year

Comparison of real GDP index by scenario and pre COVID-19*



*Relative to baseline projection
Source: Strategy& UK Economic Analysis April 2020

Impact of COVID-19 on Travel and Leisure GVA by scenario



Source: Strategy& UK Economic Analysis April 2020

2.1m

Current no. of sector employees

'Total number of employees' represents the total number of employees in the travel and leisure sector. These figures are deduced from ONS data, specifically the Business Register and Employment Survey 2018 provisional.

High

Jobs at risk RAG rating

'Jobs at risk' rating reflects the analysis conducted by the International Labour Organisation. They assessed the global impacts of COVID-19 on different sectors, assessing those most likely to lay off workers due to lower cash flow.

19%

of workers normally come into physically close contact with >20 fellow workers

Physically close contact is defined as a distance of 2m. Source: PwC Research QuantiBus April 2020.

20%

of workers can work from home

The Work From Home index is based on a survey carried out by PwC Research, and is the equivalent to the % of respondents saying they can work from home.

What are we learning?

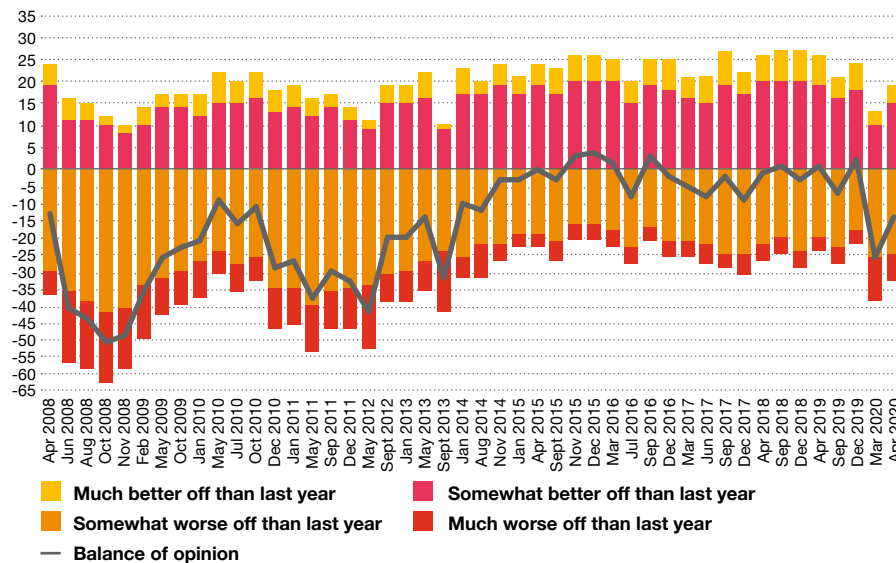
Uncertainty is rife, among businesses and consumers

Uncertainty around the lifting of lockdown restrictions and what that means for employment is affecting confidence in the economy and personal finances.

Consumer sentiment fell sharply in March but slightly recovered in April as the government announced support measures. Currently, confidence remains higher than during the last recession, but continued economic uncertainty could cause volatility in spending behaviour.

Consumer confidence, PwC Consumer Sentiment Index, April 2020

“Thinking about your disposable income (e.g. money remaining after household bills, credit cards, etc.), in the next 12 months do you expect that your household will be...?”



33%

of households expect to have less disposable income in the next 12 months

“

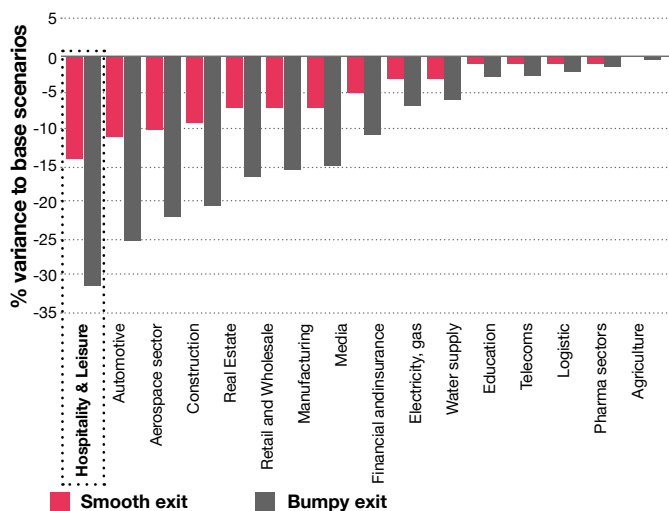
The performance of individual sectors will depend on how long restrictions remain in place and whether consumers will want – and can afford – to return once they’re lifted.”

An exposed sector

Travel and leisure are often hit hard by an economic downturn or weak consumer confidence. Currently, that impact is hard to separate from the restrictions on the markets, but we expect to see it materialise over the coming months and for the depth of decline and time to recover to be more noticeable in these sectors than other consumer categories.

The performance of individual sectors will depend on how long restrictions remain in place and whether consumers will want – and can afford – to return once they’re lifted. We expect the greatest challenges will be in the long-haul travel and cruise sectors. Those sectors least exposed will include domestic travel and smaller ticket, lower personal interaction leisure activities, such as food-to-go.

PwC Annual Gross Value Added (GVA) % variance to base scenarios based on COVID-19 impact by sector, 2020



Forced experimentation and sticky behaviours

The lockdown has driven people to experiment with digital alternatives to old behaviours. Some of these behavioural changes will stick even after restrictions are lifted. For example, during the 2008 financial crisis, consumers traded down to low-cost gyms or used metasearch sites to hunt for the best travel deals, trends that we still see today.

This time, we expect consumers to use a wider range of online services after the crisis, particularly live streaming events, ordering more food delivery and gaming.

Other behaviours are an acceleration of those we expected to change over years rather than weeks, such as the increasing use of digital fitness services and restaurant delivery.

Structural change is required

The crisis is likely to result in supply contraction and consolidation across the travel and leisure sector.

Restaurants and pubs will decrease as some operators exit the market or pursue company voluntary arrangements (CVAs) to reduce their marginal sites. With an increase in people working from home, there will be a long-term impact on leisure operators that target office workers (e.g. food-to-go and coffee shops). This may lead to portfolios with fewer stores in city centres and more in commuter belts.

Supply will contract in the airline industry as second-tier airlines fail or some planes are grounded permanently. Smaller, regional carriers may struggle to survive. The online travel agency (OTA) sector is also likely to consolidate, with larger, global and more financially secure operators surviving and smaller ones struggling.



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How do we respond?

The current focus in the sector is survival: saving cash and jobs, and finding alternative funding. But now is also the time to think long term. Operators need to plan how they can reopen, assess how their business models will need to change to be successful and capitalise on changing consumer trends, and embed resilience in the business long-term.

Reopening

In several ways, reopening will be more challenging for businesses than the current lockdown. For many, it may prove easier to conserve cash while a business is closed than when it reopens.

With many travel and leisure businesses operating on tight margins, a 10% to 20% drop in sales could put them in financial trouble, even before including the added costs of cleaning, personal protective equipment (PPE) and social distancing. Owners will need to plan to reopen carefully, possibly by considering staged openings over time. Operating models and propositions may need to change in the short and medium term to optimise performance. Examples could include limiting menu options in food-to-go operations to simplify kitchen processes and reduce wastage or reducing the destination or hotel coverage for OTAs to focus marketing and contract negotiations on key areas.

Embedding resilience

Businesses will need to become more resilient to shocks. To prepare for potential business disruption in the future, operators need visibility over resources and a range of scenario plans. They must ensure flexibility and right-sizing of the cost base and consider greater diversification.

Right-sizing

Operators must look at a fundamental restructuring of operations to optimise and build a healthier business long-term, reducing 'bad costs' and focusing on 'good costs' that support core competencies and customer-facing activities. This might mean operating with smaller estates or smaller teams.

Diversification

Broadening customer base, product range or channel will improve flexibility in the future. Some leisure businesses are already doing this in response to the crisis, with restaurants offering grocery products and ready meals, and gym operators renting out equipment and offering online classes.

10%

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Capitalising on consumer trends

COVID-19 has changed the way people consume leisure activities, presenting opportunities to capitalise on several new or accelerating trends.

Experiences

For some time, younger generations have preferred to spend more on experiences than material products, boosting growth in categories such as eating out, competitive socialising and adventure travel. During the lockdown, people will have missed experiences and there will be pent-up demand. In the future, we expect these underlying trends will continue to drive growth in markets catering to experiences.

The acceleration of digital services

Online penetration has been accelerated by the crisis in several areas.

- Food delivery: Delivery is forecast to double over the next 10 years to account for about 20% of the restaurant market. The closure of dine-in sites has seen online delivery use increase, with many consumers trialling these services for the first time. Some of this behaviour will stick after lockdown, particularly for consumers keen to maintain social distancing. The crisis gives operators the chance to exit loss-making sites or to rethink the role and format of sites to cater more for delivery in the future.

- Fitness: The use of online fitness has increased rapidly during the lockdown. Supply has grown significantly, with gyms and instructors streaming classes and emerging platforms launching on pay-as-you-go or subscription models. Here, traditional fitness operators have a chance to establish digital options that improve customer engagement and retention and offer additional revenue streams. The challenge for the range of new digital offerings (e.g. from studios or instructors) will be establishing effective revenue generation.
- Travel: Given the closure of offices and furloughing of many staff, online channels have become even more important for the travel industry, particularly for communication between consumers and operators. This could have wide-ranging effects for the industry, from the acceleration of chatbots as a communication tool, to the acceleration of high-street travel agent closures in favour of home-working agents.

Focusing on purpose and values

Brand values appear to have become more important to consumers. Company actions during the crisis are regularly critiqued on social media, to the extent that how brands treat customers, staff and the community at this time will leave a lasting impression.

Good examples include operators working together on the #FeedNHS campaign or hotels offering beds to NHS workers and the homeless. However, operators that have aggressively pursued financial goals with apparent disregard for consumers or employees could create long-lasting ill-will. Operators should look at purpose as a way to differentiate themselves and create consumer trust throughout the crisis and beyond.

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A positive long term view

In the long term, we believe the travel and leisure industry will return to a position of strength. Given the experience-led nature of this sector, it is likely to look fairly similar to how things were, more so than in other consumer markets where we'll see permanent shifts in consumer behaviour.

Because of this, successful businesses will be the ones that get the basics right – establishing a clear target customer base, giving those customers what they want and differentiating from the competition. Operators should adapt their business models to meet any changes in consumer trends, invest in the future of their business and capitalise on new opportunities.

Despite the uncertain environment, those that use the crisis period to reassess and reshape their businesses will benefit over the recovery period and beyond.

Who to talk to

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