Keep calm and play on: The rise of Digital Leisure

Perspectives on the growth of Digital Leisure and the characteristics of a winning model

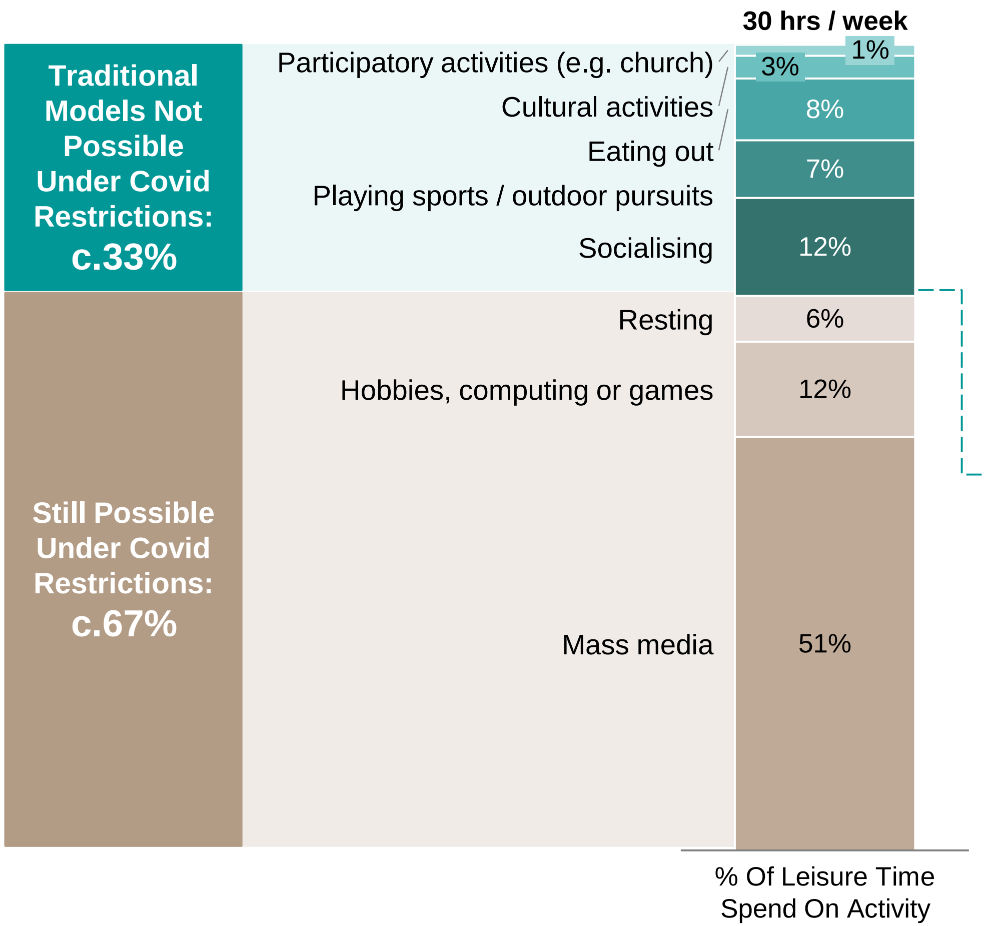
April 2020

OC&C Strategy consultants

uncommon sense

Covid-related restrictions have led to major disruption to traditional leisure patterns – out-of-home leisure (c. 33% of time) is being forced digital

Population Weekly Leisure Time Breakdown By Activity Type



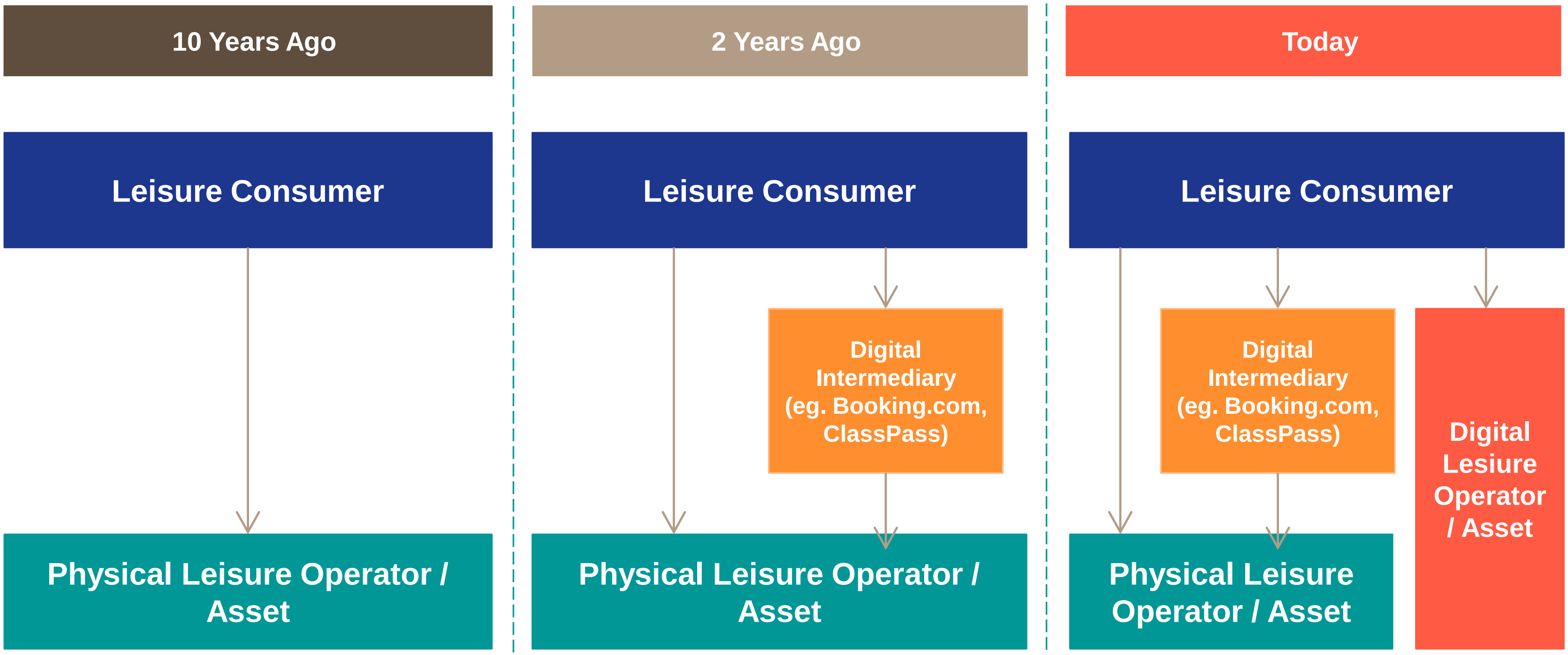
- **c. 33% of leisure time is spent on leisure activities that, in their traditional form, can't be done under lockdown restrictions**
- In this context, **consumers are switching towards digital alternatives**
- This has led to **substantial growth in established digital markets** like online food delivery and e-gaming…
- … But also the **emergence of new forms of digital leisure** as novel solutions look to satisfy this new demand and established leisure players look to rapidly shift to digital and offer a multi-channel experience

- **Digital media is already relatively mature** given significant historic growth, and there are already established and sizeable players operating in the space (e.g. Netflix, Sky, Twitch etc)
- These established categories have **received a boost given recent restrictions**, with individuals shifting away from other forms of leisure towards mass media, computing and games
- And within these categories there will have been substantial change in production and consumption patterns

Source: ONS, OC&C analysis

Digital leisure consumption is relatively new for many sub-sectors where intermediaries have been the primary digital model historically

Evolution of Leisure Digitisation



Source: OC&C analysis

Over the past month, there has been a noticeable spike in a wide variety of digital leisure activities

Digital Leisure Categories

Magnitude Of Covid Spike

	Description	% Users Gained In Last Month[1]	Example Businesses
Digital Social Applications	Social videochat / games platforms	**79%**	Houseparty, Psych, TikTok
Online Fitness	Virtually streamed fitness classes	**72%**	Peloton, Freeletics, Nike
Online Music	Online music lessons	**61%**	Freelancers, Udemy
Online Cooking	Online cooking classes & tutorials	**56%**	Leiths, Freelancers
E-Sports Streaming Platforms	Online videogame competition viewing	**56%**	Twitch
Online Cultural Events	Virtual museums / tours / theatre productions	**52%**	National Theatre, Getty
Online Home & Garden Tutorials	Lessons on gardening inc. gardening kits + tutorials	**50%**	Thomson & Morgan
Online Gambling	Online casinos, bingo and sports betting	**44%**	Betfair, Bet365
Online Food Delivery	Food delivery applications	**43%**	Deliveroo, UberEats
e-Learning	Online academic courses / certifications	**43%**	Udemy, Coursera
Online Language Courses	Online language classes	**41%**	Duolingo, Babbel
Online Dating	Intermediated online dating	**36%**	Tinder, Bumble

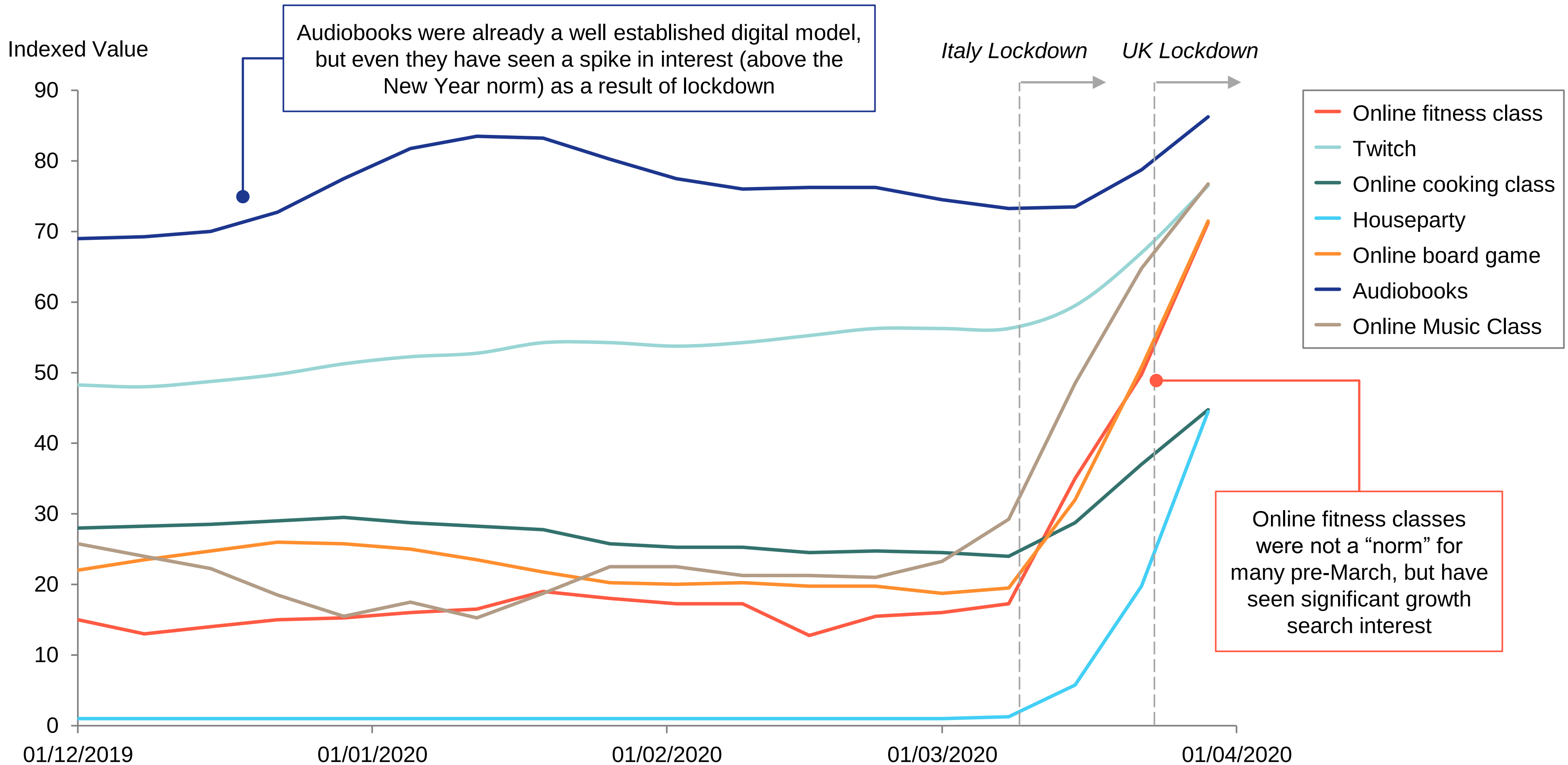
1. Based on % Users that first signed up in the last month – from OC&C Consumer Survey Apr 2020

Source: Desk Research, OC&C Consumer Survey 2020, OC&C analysis

The uplift has occurred both among existing, established online leisure categories and those categories going digital for the first time

Worldwide Google Searches For Digital Leisure Terms (Dec 2019 – Apr 2020)

Indexed vs Peak Activity, 4 Week Rolling Average



Source: Google trends, OC&C analysis

Social applications and online fitness appear to have seen the most dramatic uptake, but there are a number of more niche activities that have seen growth

Penetration Of Digital Leisure Activities By Date Of First Engagement
(Apr 2020, %)

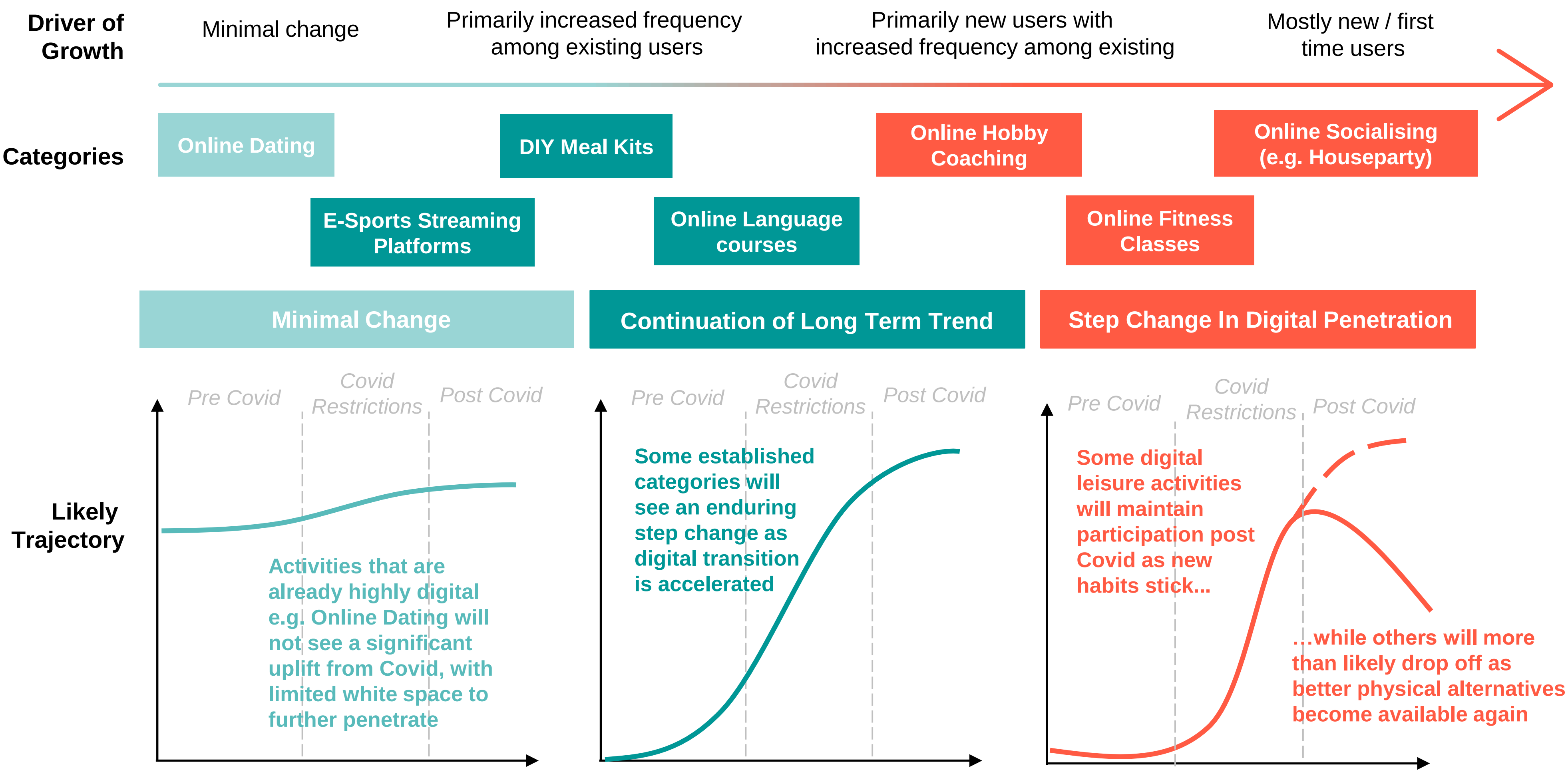
n=429

1. Responses to question: "Of the following activities that you have engaged in, when did you first begin to try these activities?" – 2. was asked first
2. Responses to question: "Have you ever engaged in any of the following digital activities?"

Source: OC&C Consumer Survey Apr 2020, OC&C analysis

We believe that the likelihood of these digital alternatives sticking when lockdown restrictions are lifted varies by category

Digital Leisure Activity Classification

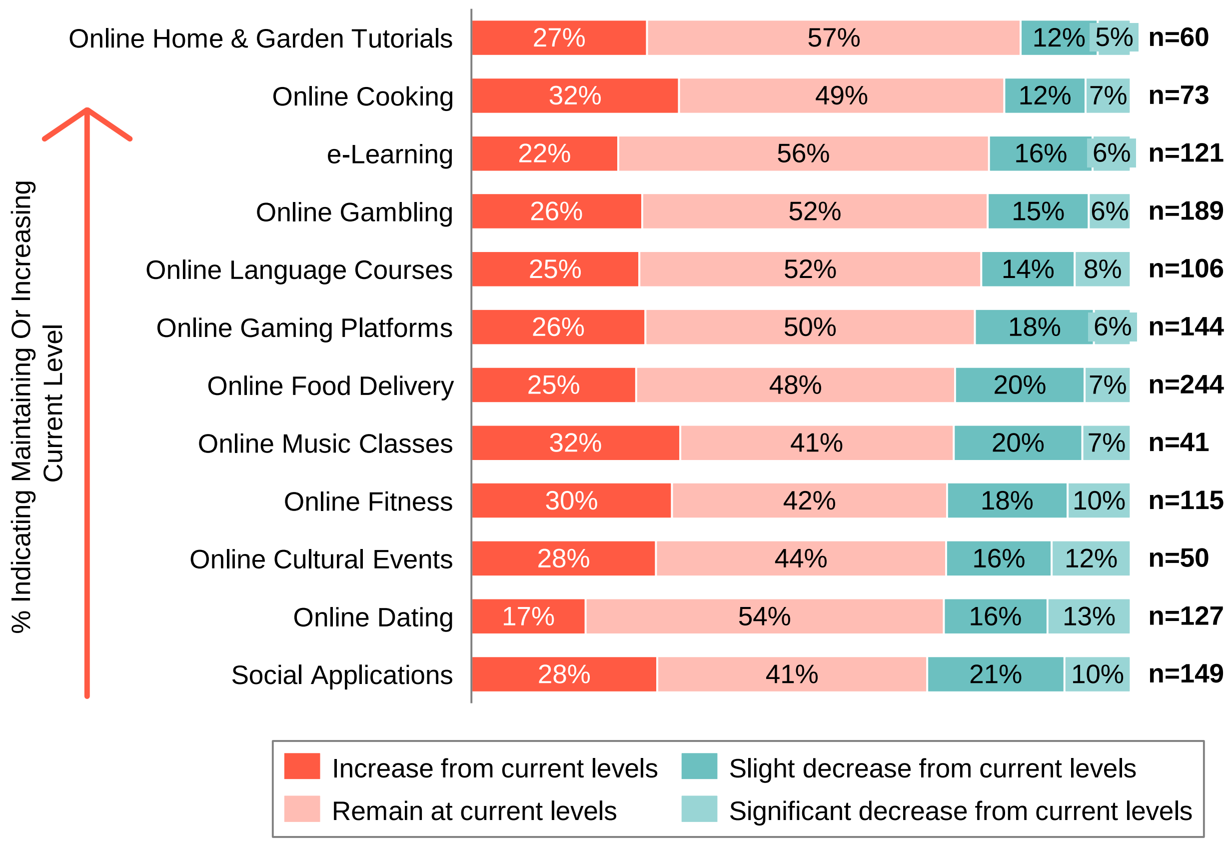


Source: OC&C analysis

Most individuals indicate that they will maintain current levels of engagement, which would reflect a notable step-change for some categories

"How Do You Expect Usage To Change As Covid Restrictions Are Lifted?" **n=429**

OC&C Consumer Survey 2020



Commentary

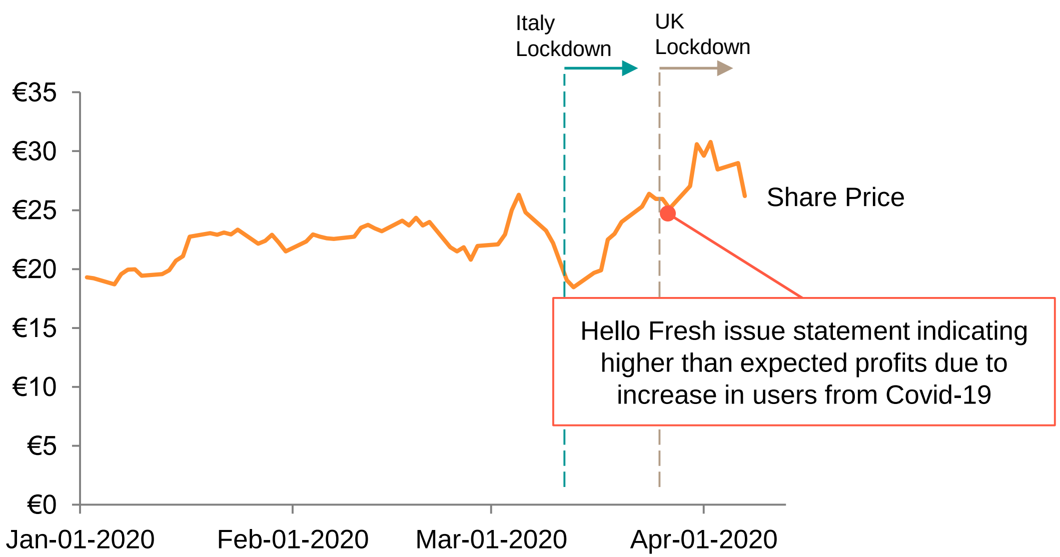
- **>50% of respondents indicated that they will maintain or increase current levels of digital leisure engagement** post-Covid, suggesting this may indeed be a long term step change
- **Online hobbies appear to be the strongest subset of "new" digital leisure** where individuals will maintain or increase their current use levels
  - However these niche pursuits may not significantly increase penetration beyond current levels
- **Social applications are rated as the least likely to be continued post restrictions**, reflecting their weak use case under normal circumstances

Source: OC&C Consumer Survey Apr 2020, OC&C analysis

Case study: The current spike in DIY meal kits is likely to accelerate the on-going transformation towards subscription meal prep

Home Cooking Meal Kits

Hello Fresh Share Price (Jan 2020 – Present)



More Consumers Are Relying on Meal Kits amid COVID-19 Pandemic

Emarketer.com

Home Cooks Trapped by Coronavirus Are Flocking to Meal Kits

Eater.com

Meal subscription kits skyrocketing in popularity during coronavirus pandemic:

cleaveland.com

Commentary

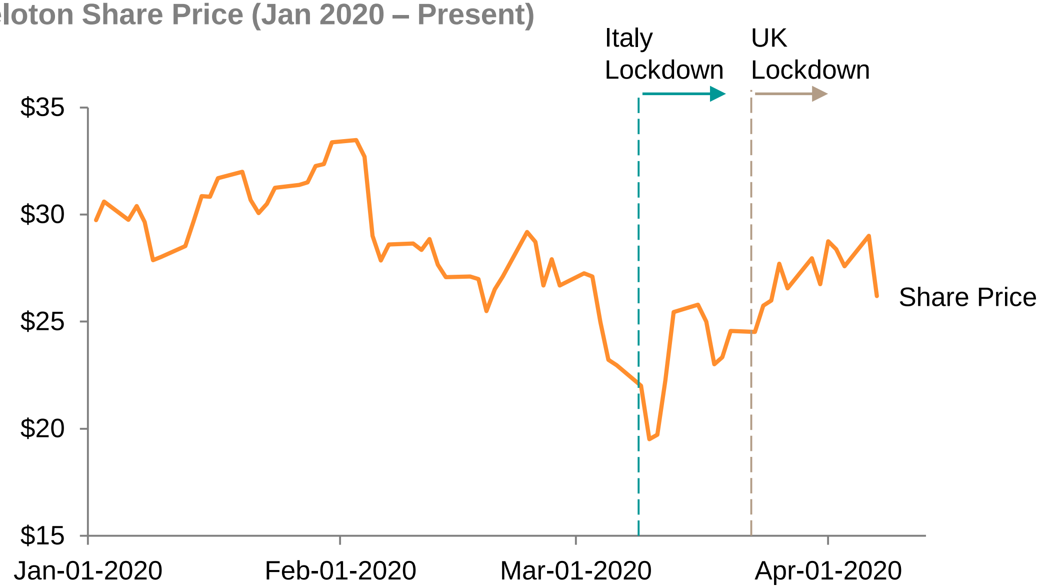
- Meal preparation market already worth c. $3bn USD globally, and expecting double digit growth to 2024
- Covid related restrictions have led to a spike in sales, described by commentators and directly by Hello Fresh when projecting profit upside
- A number of underlying characteristics suggest this uplift is likely to be sustained:
  - A substantial and positive shift to home cooking has been seen in Western economies, with many expecting these habits to sustain
  - Widespread trial of value added services such as these (combination of product delivery and recipe provision) is likely to lead to at least some on-going usage…
  - … Particularly in the context of negative experiences with grocery food delivery through this period

Source: CapitalIQ, Desk Research, OC&C analysis

Case study: Online fitness has seen one of the biggest spikes following restrictions, helped by several gym chains offering online classes

Online Fitness Classes

Peloton Share Price (Jan 2020 – Present)



Daily Burn says it's seen a 268% year-over-year increase in membership signups, a company representative told Business

Business Insider

COVID-19 impact: Almost overnight, the $100 billion fitness industry goes virtual

Gulfnews.com

Commentary

- Recent growth in online fitness has primarily come from prior gym goers switching towards online classes
  - Market has been flooded with new supply of free online classes from personal trainers and heavily discounted virtual classes from gym chains
- Consumer proposition from online fitness classes is compelling – it offers the flexibility and comfort of engaging from anywhere as well as (typically) costing less than gym memberships.
  - Consumers indicate they are likely to maintain current levels of online fitness usage
- Key driver will be whether gym chains can transition into a successful multi-channel model with physical gyms supplemented by online classes – as well as growth in specialist online concepts such as Peloton / Daily Burn

Source: CapitalIQ, Desk Research, OC&C analysis

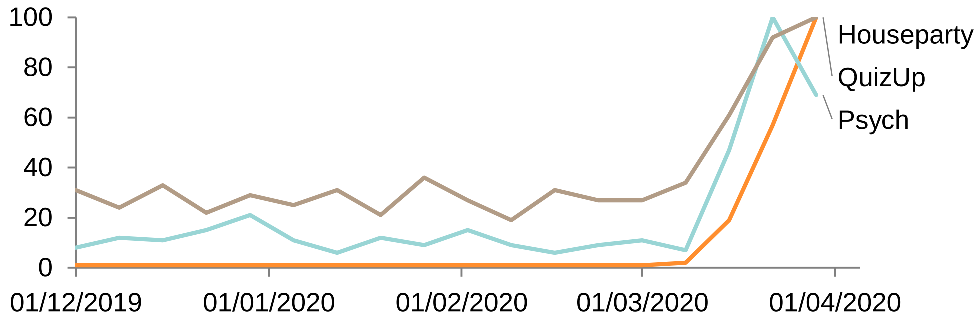
Case study: Despite being highly rated, it is unlikely apps based on social interactions maintain current usage levels when physical space is reopened

Social Applications

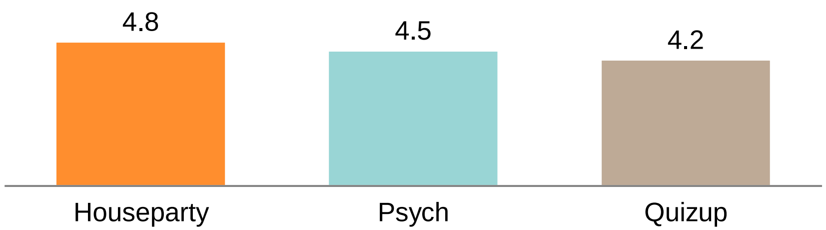
Social applications have grown substantially from relatively niche pursuits with small user bases to mass market usage, often with positive reviews…

…however reasons of usage have typically centred around socialising during restrictions – use case is not convincing under normal circumstances

Worldwide Google Search Trends For Select Social Applications
(Dec 19 – Apr 20)



AppStore Reviews For Select Social Applications (Apr 2020)



Multi person social interactions are not easily substituted by virtual interactions – while effective temporary measures the level of usage is unlikely to be sustained when direct socialising is possible

"Ok so basically I got this app when I heard that we can't go outside a lot and meet family due to the Coronavirus…"

Houseparty User – 4*

"Brilliant app…Especially at a time like now (Coronavirus)"

Houseparty User – 5*

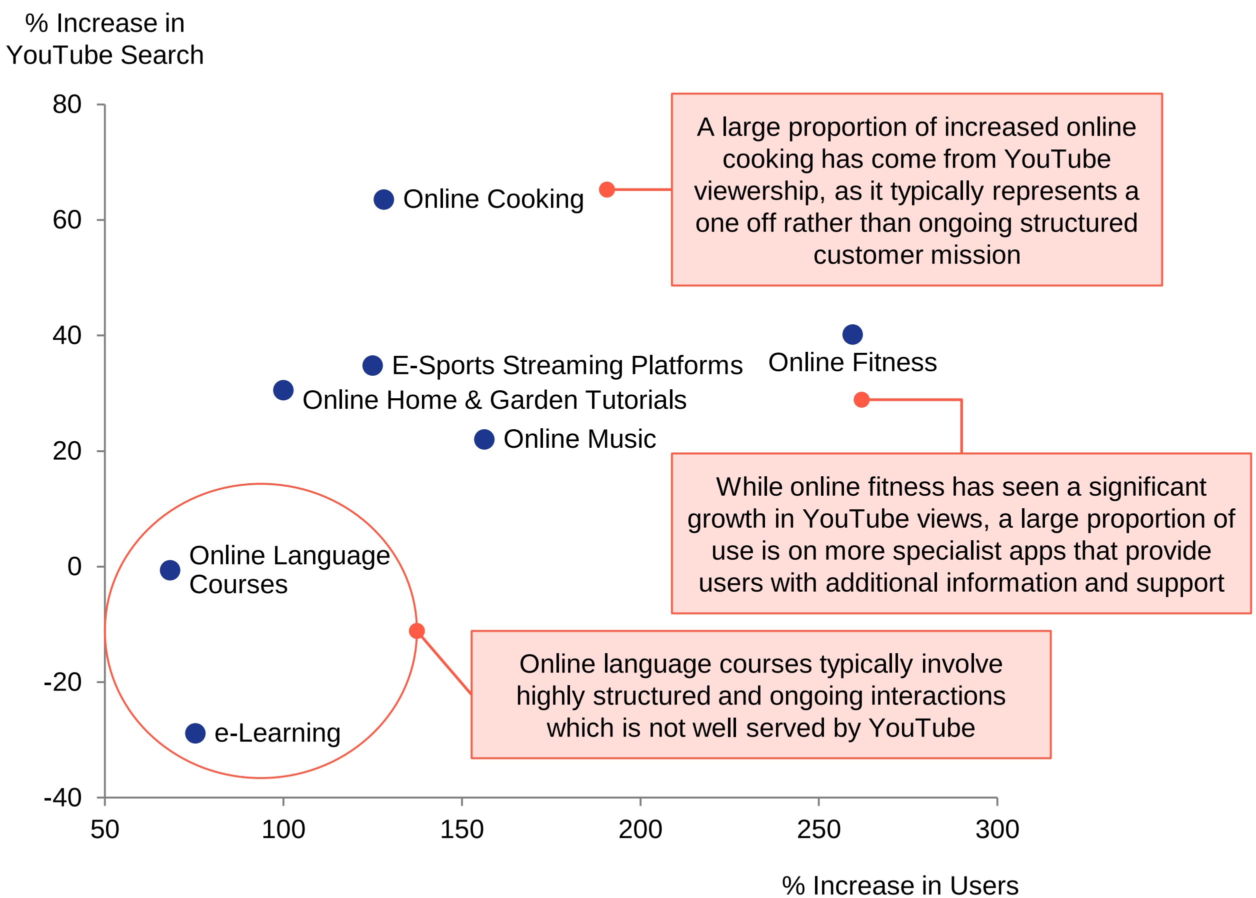
"Due to the current situation (covid-19) it's a fun way of playing something with our friends and we do really enjoy it"

Quiz Up User – 2*

Source: AppStore, Google trends, OC&C analysis

Many online leisure missions are successfully served by general platforms like YouTube, which will form a major barrier to monetisation longer term

% Increase In YouTube Search[1] vs Increase In Penetration[2] By Category

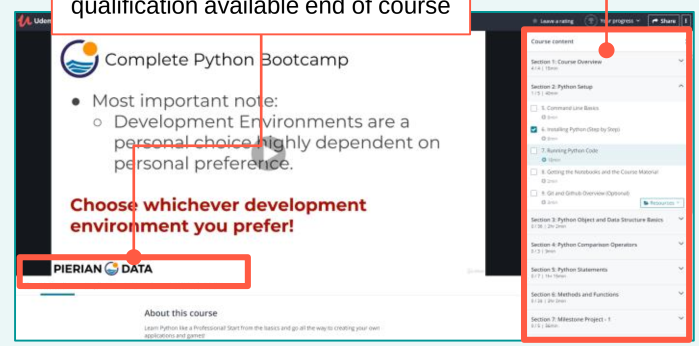


Case study: E-learning

- E-learning requires specialist content with a structured workflow; YouTube is more effective when looking for single videos rather than a structured sequence
- Online courses are often used as a qualification, where specialists are required for legitimacy purposes, rather than generalists

Modularised course content with structure and flow – YouTube recommendations typically do not follow this pattern

Verified instruction with a qualification available end of course



Screenshot of Udemy course homepage

1. Based On YouTube categorisation: “Home & Garden”, “Cooking & recipes”, “Fitness”, “Gaming Media & Reference”, “Language Resources”, “Music Education & Instruction”, “Education”
2. Based on OC&C Survey Penetration by category

Source: OC&C Consumer Survey Apr 2020, Google Trends, YouTube trends, OC&C analysis

As we think about sustainable winning models in this space, there is a need for both a compelling long term use case and a route to monetisation

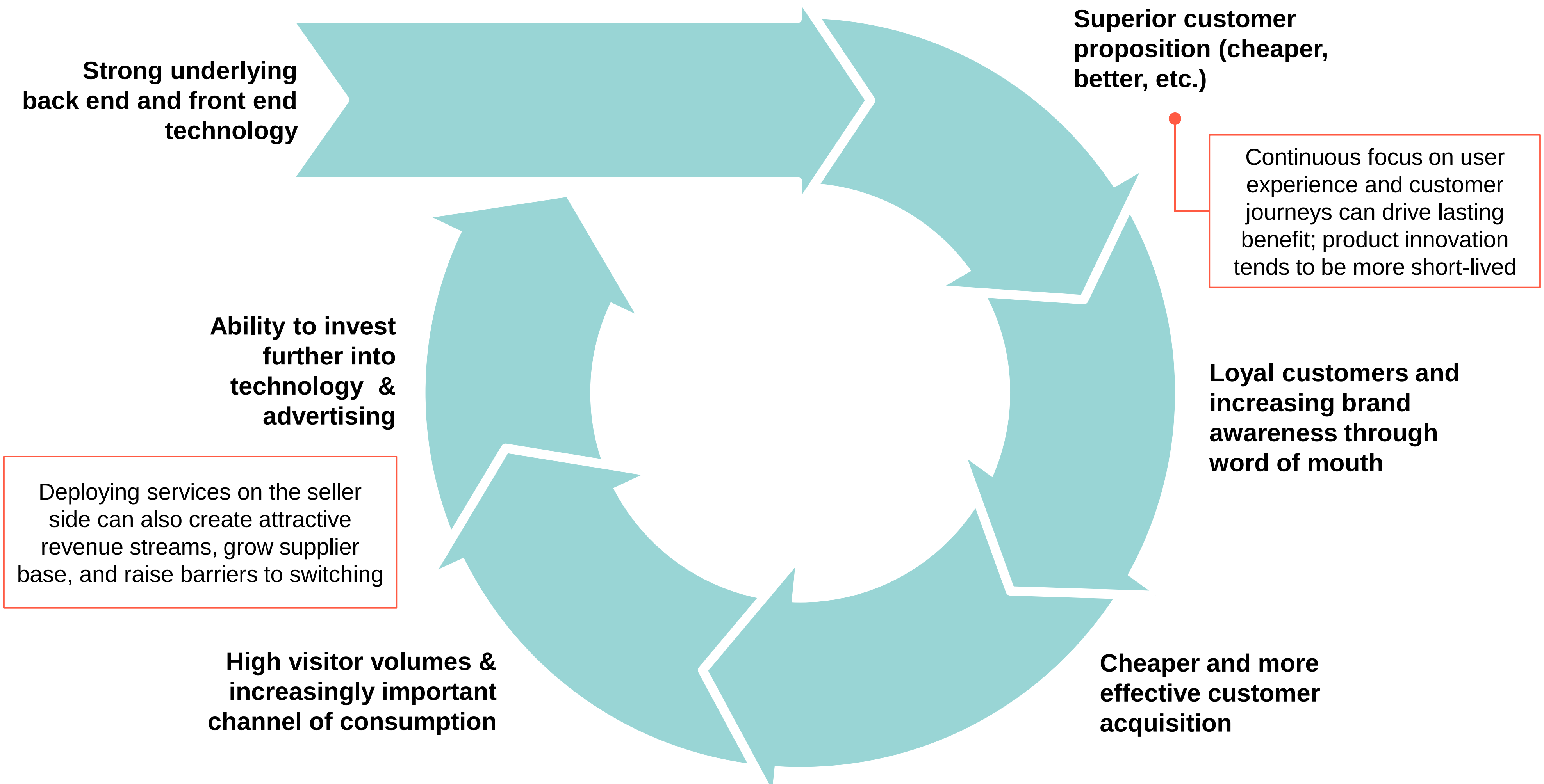
Elements Of Digital Leisure Winning Model

Compelling Long Term Use Case	**Clear advantages vs physical alternatives**	**Must deliver a superior user experience on some propositional axes – ideally those most important to market participants** - e.g. greater flexibility in when and how I do it, more customisable and insightful, lower cost etc.
	Specialist with a comprehensive offering	**Category specialised and focussed on a specific customer group and their needs in a way that a generalist platform cannot** – e.g. an ability to more easily search / track relevant content, a data wraparound of core content etc.
	Fostering frequency	**A customer journey and selection of content that supports and encourages regular interaction**, ideally promoting habitual use – e.g. through structured programmes, regular communications etc.
	Capitalise on network effects	**Encourages the development of a user community**, which improves engagement, drives awareness and encourages word-of-mouth recommendation – e.g. integration with social channels, data-driven competitive elements etc.
Route To Monetisation	**Vertically integrated proposition**	**Ability to offer an omni-channel experience**, with a retail or physical leisure component driving stickiness and maximising share of spend; particularly critical as lockdown measures oscillate over the next 12 months
	Effective revenue generation mechanisms	**An effective sustainable mechanism to generate revenue**, which may be ad funded (requires a large, regular user base), % of transaction fee (effective if selling a variety of standalone modules, or aggregating work from multiple suppliers) or subscription (either freemium, with significant % of users interested, or very frequent engagement)

Source: OC&C analysis

Importantly, successful digital businesses display powerful network effects, strengthening their position over time

Digital Platform 'Virtuous Circle'



Source: OC&C analysis

There are a number of key questions for businesses looking to succeed in this space

Key Questions for Leisure Operators

01 Which customer groups are you targeting and what are their specific needs from a digital solution? What is the problem you're solving for?

02 How is your proposition differentiated versus generalist user-generated platforms such as YouTube? What's your right to win and how can you enhance this?

03 How can you use data and machine learning to enhance the user experience and improve content curation?

04 How do you foster a user community and encourage healthy interactions and even competition amongst the user base? How can you link in with other digital / social communities?

05 How can you link in with the physical world – either through your own physical space or through partnerships with others?

06 What are your options for monetisation, and what is the right pricing strategy? Are there creative incremental revenue streams from a supply-side that could support the economics?

Ask us to share more

Tom Charlick

Global Head of Leisure & Hospitality

tom.charlick@occstrategy.com

Katherine Fiander

Associate Partner, Leisure & Hospitality

katherine.fiander@occstrategy.com

Zeeshan Ashraf

Partner, Digital Media

zeeshan.ashraf@occstrategy.com