

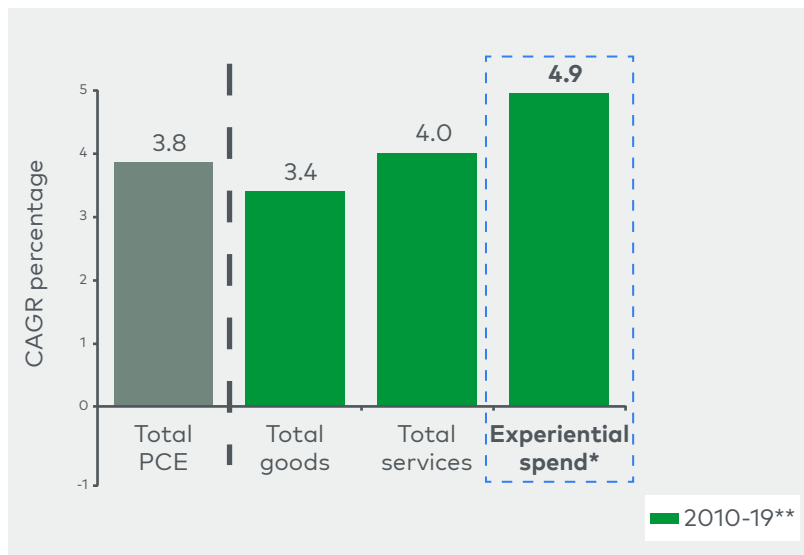


EXECUTIVE INSIGHTS

Unlocking Growth Potential in Site-Based Entertainment

When searching for ways to spend discretionary income, consumers are increasingly focusing on experiences rather than material goods. This is driving growth in Site-Based Entertainment (SBE), also known as “location-based entertainment,” and other forms of live entertainment (see Figure 1). SBE offerings are physical destinations that provide fun and shared experiences, often delivered within big-box commercial or retail locations. In this edition of L.E.K. Consulting’s *Executive Insights*, we discuss the leading trends in this growing segment and present a checklist for creating value in the SBE space.

Figure 1
Annual growth in PCE, total goods, total services and experiential spend



Consumers are increasingly spending more resources and attention on experiences rather than material goods, driving growth in live event entertainment

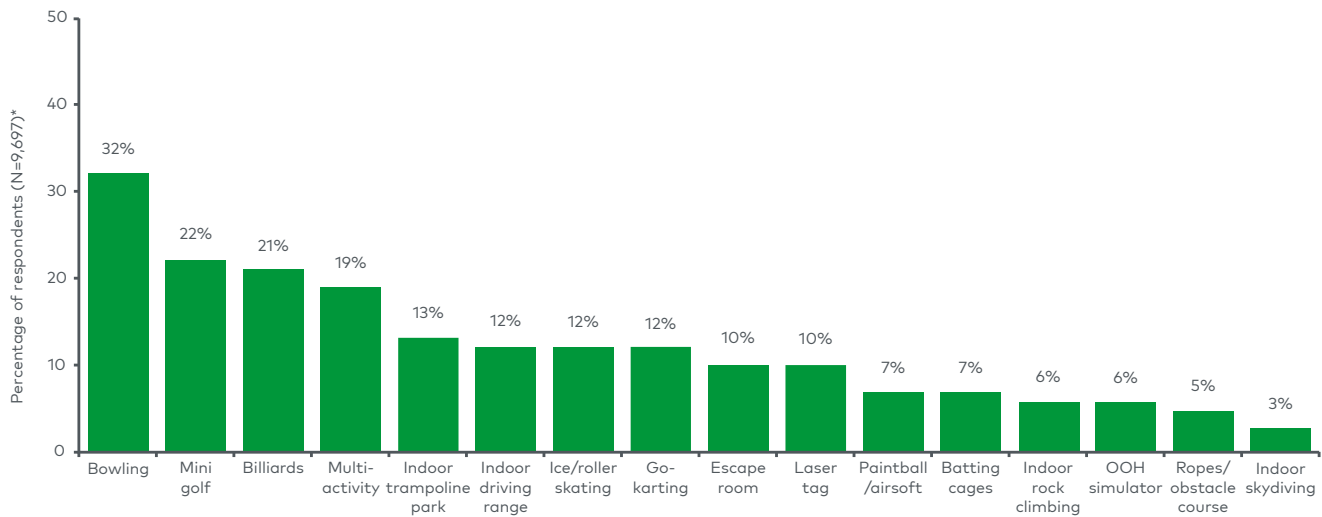
Experiential spend growth over-indexed personal consumption expenditure, total goods and total services pre-pandemic

*Experiential spend includes recreation services, food services and accommodations
 **Data for 2020-21 is impacted by pandemic-induced restrictions, and 2022 data was unavailable at the time of this report
 Note: PCE=personal consumption expenditure; CAGR=compound annual growth rate
 Source: Bureau of Economic Analysis; L.E.K. interviews, research and analysis

The SBE category is rich and diverse, encompassing bowling, escape rooms, go-karts, indoor trampoline parks, mini golf, arcades, immersive experiences and much more (see Figure 2). Typically combining elements of leisure, hospitality and retail, these businesses deliver full-service quality time to families, colleagues, friend groups and couples.

Figure 2

Percentage of US population that has participated in each SBE activity over the past 12 months (2023)



*Survey question: Which, if any, of the following leisure activities have you visited/participated in over the past 12 months? Select all that apply
 Note: SBE=site-based entertainment; OOH=out-of-home
 Source: L.E.K. survey and analysis

Tapping into a flourishing area of the leisure economy

As is obvious to anyone who grew up visiting arcades and bowling alleys, SBE is not a new idea but rather a mainstay of mid-to-late-20th-century leisure. Much of the category has been long run by independent operators who (with obvious exceptions such as theme parks) were focused mainly on satisfactory delivery of the central offering rather than commercial development. However, this began to change in the decade preceding COVID-19, when entrepreneurs applied established disciplines from restaurants, retail and other service industries to build more engaging, revenue-generating propositions, and rolled them out across corporate networks with consistent service delivery.

Since then, operators have raised food and beverage standards and added new paid activities, broadening the footprint of these locations within consumer leisure time and improving accessibility. Creating birthday packages, corporate products and other segment-specific offers has broadened the category’s appeal. Elevated service and safety standards have improved the consumer experience, while the use of precision marketing efforts has

boosted traffic. These developments dovetail nicely with the growth of the experience economy as consumers have shifted spend from goods to memorable activities.

Leading operators, for example, have taken a collection of enduring, beloved yet basic activities like go-karts, mini golf and karaoke and updated them to polished category-killers that deliver much higher yields alongside impressive customer satisfaction scores. These developments have also enabled newer formats, such as darts and indoor driving ranges, to develop in a similar way. The broader appeal of these models has provided the category with opportunity-laden expansion and has given investors more attractive, investable growth assets with global potential.

Smaller independent operators can sell to larger groups or adapt to the changing landscape. The long-tenured sole traders that do not adapt, however, are at risk of absorption or displacement.

With the rise of site-based experience popularity has come new formats like activity bars (think mini golf, darts, arcade or bowling, combined with a bar and under one roof), family entertainment centers (soft-play, trampoline parks, indoor rock climbing, etc.) and tech-enabled offerings (like laser tag, virtual reality rooms and indoor skydiving). While some of these new formats may ultimately lack durability due to shorter-term appeal (e.g., axe throwing), limited variability (e.g., indoor skydiving) or other factors, it's clear that the long-term consumer spending shift from material goods to experiences will ensure this category remains robust.

While COVID-19 brought many SBE businesses to a temporary halt, we have seen them prosper again during the recovery period as consumers pivot back to out-of-home social experiences (see Figure 3).

SBE also exhibits remarkable resilience during recessionary periods. As consumers tighten their belts, they often trade down from costlier activities, and the diversity of experiences in SBE ensures that the category remains active and appealing. Even during tough times, people seek shared moments with loved ones, and local, budget-friendly options fit the bill perfectly.

Figure 3
US personal consumption of recreational goods and services (2020-22)



*All statistics on the right-hand side are from 2021-22

**Spending on membership clubs, sports centers, parks, theaters and museums, audiovisual/photographic/information processing equipment services, gambling, and other recreational services

Note: CAGR=compound annual growth rate; OOH=out-of-home; SBE=site-based entertainment; FEC=family entertainment center

Source: U.S. Bureau of Economic Analysis; Federal Reserve Bank of St. Louis

SBE value creation checklist

Pulling from long-time experience in the industry, we have developed a checklist of important resources and practices employed by modern, successful SBE businesses to create value – approachable factors to consider when reviewing investment opportunities and growth potential within this space.

1. Product innovation to maintain/extend consumer appeal

- A clear overall proposition, with well-designed offering variants for different segments and use cases, providing opportunities for events ranging from dates and kids' birthday parties to corporate outings and stag parties
- A compelling core experience to anchor the leisure proposition – often this means long-proven elements like arcades, bowling and karaoke
- Digitized "game play" choices where appropriate, enabling some adaptation for target audiences (e.g., kids vs. adults) and potentially adding an extra dimension to competition through gamification (e.g., darts, Ping-Pong)
- Leaning into the Instagrammable aspect of a location by encouraging social sharing

2. Extension of offering into add-on/adjacent products and services

- High-quality food and beverage on-site, which adds margin, dwell time and convenience for customers
- Targeted retail options such as merchandise, where relevant, which adds yields and memory-making opportunities
- Additional activities and experiences to occupy wait time, such as arcade games, broadening appeal

3. Enhanced commercial excellence

- Strategic and precise digital marketing to target and drive relevant consumers to the offering
- Quality on-site user journeys, delivering strong service design and no friction or pain points within the experience
- A smooth digital purchase flow, which allows booking, option selection (including add-ons) and data collection in advance, to improve the on-site experience
- Well-designed pricing structures, including bundling to drive dwell time and engagement across revenue streams, and season passes to drive loyalty
- Outstanding, consistent customer service from engaged, passionate team members who reflect the brand and deliver on service standards
- Excellent back-end capabilities to support consistent results and management, most notably information systems
- Effective network planning, development and site-ramp-up capabilities, to expand reach and deliver scale economies

While these competencies are relevant to big-box and similar offerings that inhabit the suburbs, they also have some application across all location-based leisure assets, including fitness centers, stadiums, exhibitions and museums.

Improving the power of experience

Looking forward in the SBE space, we can expect to see a sustained consumer focus on social, real-life experiences, supporting a healthy trade for good offerings. Continued format innovation and intensifying competition for time should result in more robust offerings that extend dwell time and customer satisfaction. The use of intellectual property in new models is expected to grow, bringing new ways to engage customers, such as experiences based on Hollywood studio brands. The landscape will see an increased focus on marketing around customer relationship management to drive repeat visits and sustained brand engagement, as well as more scale businesses offered for investment by financial sponsors.

Ultimately, the SBE category opens up a variety of opportunities for investment, especially in properties making successful use of strategic practices that have been shown to improve the customer experience and increase revenue streams, further elevating this category.

Stay tuned for our upcoming article that will look into specific concepts through the lens of durability and scalability.

To learn more about investment strategies in the site-based entertainment space, please contact our team.

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